

The Impact of Compensation towards Employees' Performance: Employees' Motivation as the Mediating Role

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Abstract

This research identifies the impact of compensation on employees' job performance. The study used a causal-comparative research design to explore the relationship between compensation and employee performance in commercial banks. The sample size was calculated using a formula that determined the appropriate sample size for the population of 385 employees. The survey questionnaire was administered to 192 employees out of 20 branches of 15 commercial banks, and respondents' demographic information was collected. The study found that both financial and non-financial compensation significantly affect employees' job performance. Additionally, employee motivation was found to have a mediating role between compensation and job performance. The findings of this research have implications for organizations to design compensation and benefits schemes that can help to increase employee motivation and job performance.

Keywords: Compensation, Motivation, Employee Performance, Rewards

Introduction

Employees are the one resource whose purposeful motivation for the successful accomplishment of organizational goals cannot be denied at all. The organization must keep their employees satisfied with organizational benefits like remuneration, allowance, and other factors too. Employee compensation is all forms of payments and bonuses paid to employees resulting from their employment. Compensation and benefits play an important role in any organization looking to achieve its goals and objectives. Compensation is the output and the benefit that employees receive in the form of pay, wages, and some rewards like the monetary exchange for the employee to increase performance. Inadequate compensation and benefits lead to poor performance, leading to low satisfaction, increased employee absenteeism, and reduced revenue (Feraro-Banta et al., 2007). In an organization, the performance of an employee used to be reflected in the compensation they get. Compensation has played a role in the employee's performance (Samnani & Singh, 2014). Compensation systems also have the potential to be one of the most important means of influencing satisfaction and behavior (SOPIAH, 2013). According to Andrew and Kent (2007) organizational commitment depends upon the compensation received by an employee.

Compensation is a vital tool for organizations to attract and retain talented employees. It is an essential factor that motivates employees to perform at their best and contributes to the achievement of organizational goals. Organizations that offer competitive compensation packages tend to attract and retain highly skilled and motivated employees, which ultimately results in higher productivity and profitability.

The organizations pay their employees as per organizational designation. Ibrar and Khan (2015) the connection and relationship between compensation, motivation, and employee performance have much significance to the success of an organization. Employee motivation is another crucial factor that influences employee performance. Motivated employees are more committed to their work and are more likely to go above and beyond their job requirements to achieve organizational goals. Therefore, organizations need to

create a work environment that fosters employee motivation by offering compensation packages that are fair and competitive.

While the impact of compensation on employee performance has been widely studied, the mediating role of employee motivation in this relationship has not been adequately explored. Understanding the mediating role of employee motivation in the relationship between compensation and employee performance is essential for organizations to design effective compensation strategies that promote employee motivation and enhance performance. Further, it was discussed with the pertinent research questions:

1. What was the level of compensation for employees' performance?
2. How motivation affects employees' performance?
3. Does motivation mediate between compensation and employees' performance?

Objectives of the Study

The general objective of the study was to identify the role of compensation on employees' job performance. It can be further explained as

1. To examine the impact of financial and non-financial compensation on employees' job performance
2. To analyze the role of motivation towards employees' job performance
3. To examine the mediation role of motivation between compensation and employees' job performance

Literature Review, Research Frame, and Development of Hypotheses

Compensation and Employees Performance

Compensation and employees' performance are strongly connected to bring (in)efficacy in organizational performance. According to Lawler and Cohen (1992) compensation systems were often implemented in organizations as important management tools that can contribute to organizational effectiveness by influencing individual behavior and motivating employees in the workplace. Organizations or any business tend to focus on financial compensation and non-financial compensation is increasingly overlooked (Chiang & Birtch, 2008). Compensation is essential in determining

performance on critical tasks and is positively associated with motivational processes (Danish & Usman, 2010). Further, Lawler (1986) compensations play an imperative role in motivating employees and improving performance. Compensation embedded a wide range of rewards that provides security, remuneration, and various services for employees and is taken as the crucial factor for employees' performance. According to Simamora (2006) compensation can be divided into two forms financial compensation (FC) and non-financial compensation (NFC) which are financial compensation is having the form of both direct and indirect compensation. Financial compensation owes higher satisfaction on job satisfaction and employees performance (Thapa, 2020). Compensation embedded a wide range of rewards that provides security, remuneration, and various services for employees and is taken as the crucial factor for employees' performance.

Compensation has a significant impact on employee performance. Milkovich and Newman (2021) found that employees who perceive their compensation to be fair and competitive are more motivated and have higher job satisfaction, which leads to higher levels of performance. Likely, Ahmad and Shahzad (2021) found that monetary compensation positively influences employee performance. However, a study by Sonawane (2008) found that non-monetary rewards, such as recognition and praise, have a significant impact on employee performance. Employees who receive recognition and praise for their work tend to be more motivated and engaged, leading to higher levels of performance.

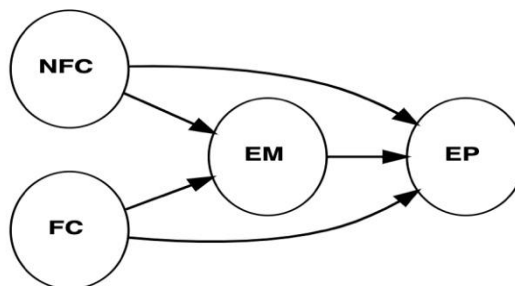
Compensation and Employee Motivation

The job of management is to ensure that the work of the employees is more satisfying and to align the motivation of the employees with the goals of the company. Employee Motivation (EM) is the most important component and plays a vital role in any organization's success (Joseph, 2015). Compensation also has a significant impact on employee motivation. According to Mulyani et al. (2019) found that compensation is positively related to employee motivation. Employees who perceive their compensation to be fair and competitive tend to be more motivated, leading to higher levels of engagement and performance.

Employee Motivation and Employees Performance

According to Pawar (2019) employee performance is viewed as employee achievement, primarily focused on quality and quantity. Further, employee performance (EP) is the work performance of an individual or group in terms of the quality and quantity of work done within an organization through the performance of duties Aima et al. (2017). According to Augustinus and Halim (2021) the indicators of employee performance were work quality, work quantity, work condition, behavior, and work assessment. Employee motivation plays a mediating role in the relationship between compensation and employee performance. Intrinsic motivation, such as the desire to learn and grow, mediates the relationship between compensation and employee performance (Gagné & Deci, 2005). Similarly, that employee motivation mediates the relationship between compensation and job satisfaction (Idris et al., 2020).

Research Framework



Hypotheses

- H₁: There is significant relation between financial compensation with employee performance
- H₂: There is significant relation between non-financial compensation with employee performance
- H₃: There is significant relation between financial compensation with employee motivation

H₄: There is significant relation between non-financial compensation with employee motivation

H₅: There is significant mediation role of employee motivation between financial compensation with employee performance

H₆: There is significant mediation role of employee motivation between non-financial compensation with employee performance

Research Methods

Research Design

The causal-comparative research design was used to see the relationship between compensation and employee performance.

Sampling Design

As a population, all branches of Commercial banks from Maharajgung to Kalanki in the side of Ringroad. The sample size was calculated with population size, 95 percent confidence interval, and $d=0.05$, according to Daniel (1995) as follows,

$$n = \frac{NZ^2P(1 - P)}{d^2(N - 1) + Z^2P(1 - P)}$$

There were 385 employees from 20 branch offices of 15 commercial banks through strata of assistant level, officer level, and managerial level, and a sample of 192 employees was taken. The survey questionnaire was filled out by asking the question respondents.

Results

Demographic Profile

The gender, marital status, education level, designation and, departments were taken as demographic profile of respondents.

Table 1

Demographic Profile		
Gender		
	Percent	N
Male	61	117
Female	39	75
Marital Status		
Unmarried	34	66
Married	66	126
Education		
Bachelor Degree	62	120
Master Degree	38	72
Designation		
Assistant	41	78
Officer	45	87
Manager	14	27
Total	100	192

Out of 192 respondents, 61 percent were male and 39 percent were female. It interprets that male employees were higher than females in the banking industry. Likely, 66 percent were married and 34 percent were unmarried. The married were higher as in Nepal most of the people get married after their bachelor's degree. Similarly, 62 percent of the respondent had a bachelor's degree and 38 percent had a master's degree. It shows that education is a must in the banking sector. Also, 41 percent of respondents were from the assistant level, 45 percent were from the officer, and 14 percent were from the manager level.

Reliability Measurement

Table 2

Reliability Measurement				
LVs	alpha	rhoC	AVE	rhoA
NFC	0.740	0.838	0.634	0.922
FC	0.783	0.873	0.697	0.820
EM	0.810	0.885	0.721	0.862
EP	0.829	0.887	0.663	0.844

Note: Alpha, rhoC, and rhoA should exceed 0.7 while AVE should exceed 0.5

The Cronbach's Alpha of each construct was greater than the acceptable threshold of 0.7, implying that there was internal consistency among the items of each construct. The average variance extracted (AVE) for constructs was greater than the acceptable threshold 0.5 and the Composite Reliability (CR) was also greater than the acceptable threshold 0.7. The composite reliability (CR) was greater than the average variance extracted (AVE) in all constructs, so both the criteria of convergent validity were met (Fornell & Larcker, 1981). Hence, each construct had a convergent validity.

Validity Measurement

VIF Assessment for PLS-SEM, common method bias (CMB) is detected through a full Collinearity assessment approach Kock (2017) and VIF values should be lower than the threshold value 3.3 (Kock & Lynn, 2012). This is indicative that the model is free from common method bias. Any value greater than 3.3 means the model is affected by CMB.

Table 3

Items <i>VIF</i>	
LVs	VIF
NFC2	1.56
NFC3	1.56
NFC4	1.36
FC1	1.94
FC2	2.38

FC3	1.58
EM1	1.86
EM2	1.94
EM3	1.45
EP1	1.55
EP2	2.42
EP3	2.21
EP4	1.68

Since, the VIF of latent variables was less than 3.3 which implies no issues of common method bias.

HTMT Assessment.

Table 4

HTMT

LVS	LVS			
	NFC	FC	EM	EP
NFC
FC	0.621	.	.	.
EM	0.606	0.575	.	.
EP	0.698	0.829	0.681	.

The HTMT values were less than 0.85 which implies the validity of constructs (Clark & Watson, 1995; Lee, Petter, Fayard, & Robinson, 2011; Hair, Risher, Sarstedt, & Ringle, 2018). Hence, the data has discriminant validity.

FL Criteria Table Report.

Table 4

FL Criteria Table Reports

LVs	LVs			
	NFC	FC	EM	EP
NFC	0.798	.	.	.
FC	0.558	0.851	.	.
EM	0.511	0.476	0.838	.
EP	0.627	0.707	0.581	0.808

Note: Square Root of AVE on the diagonal and construct correlations on the lower triangle.

The square root of average variance extracted (AVE) of each construct: Non-Financial Compensation, Financial Compensation, Employee Motivation, and Employee Performance were on diagonal and others were their correlation. The Square Root of Average Variance (AVE) was greater than their corresponding correlation, which valid the criteria of discriminant validity Fornell and Larcker (1981) and the study has no issues of discriminant validity.

Cross-Loadings and Significance of Loadings.

Table 6

Cross Loadings and Significance of Loadings

LVs	LVs					
	NFC	FC	EM	EP	2.5% CI	97.5% CI
NFC2	0.760	0.283	0.347	0.330	0.623	0.822
NFC3	0.733	0.314	0.266	0.279	0.471	0.845
NFC4	0.891	0.614	0.526	0.716	0.862	0.951
FC1	0.319	0.809	0.333	0.433	0.674	0.854
FC2	0.534	0.914	0.384	0.751	0.882	0.935
FC3	0.531	0.825	0.487	0.567	0.707	0.867
EM1	0.513	0.453	0.896	0.612	0.864	0.931
EM2	0.402	0.428	0.870	0.467	0.821	0.920
EM3	0.345	0.286	0.740	0.327	0.583	0.852
EP1	0.427	0.439	0.337	0.705	0.591	0.803
EP2	0.506	0.722	0.450	0.875	0.835	0.914
EP3	0.487	0.553	0.403	0.834	0.771	0.886
EP4	0.591	0.537	0.650	0.807	0.741	0.861

The highest loading of observed variables was in their own group which shows no issues in cross-loadings and significant too, which met with the criteria of discriminant validity.

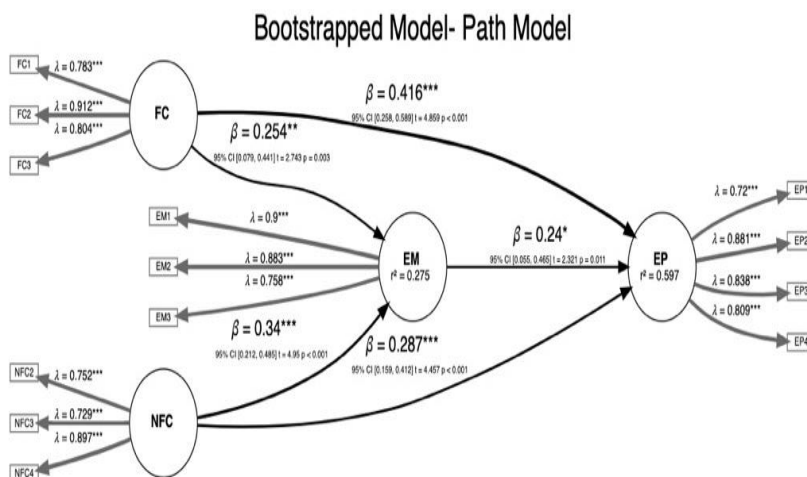
Findings and Discussion

Table 7

Total Path Analysis

LVs	Original Est.	Bootstrap Mean	Bootstrap SD	Bootstrap T Stat.	0.025 CI	0.975 CI	Supported
NFC->EM	0.340	0.347	0.069	4.950	0.212	0.485	Yes
NFC->EP	0.368	0.373	0.063	5.871	0.248	0.494	Yes
FC->EM	0.254	0.258	0.093	2.743	0.079	0.441	Yes
FC->EP	0.477	0.478	0.084	5.686	0.310	0.642	Yes
EM->EP	0.240	0.240	0.103	2.321	0.055	0.465	Yes

In the path analysis of independent and dependent variables, there was a significant relation between non-financial compensation and financial compensation with employee motivation in 05 percent of the significance level. Likely, there was a significant effect of non-financial compensation and financial compensation on employees’ performance similar with the study of (Supraja, 2020). The direct impact of financial compensation on employees was higher Thapa (2020) than that of non-financial compensation. Similarly, there was a significant impact of employee motivation on employee performance similar with study of (Mulyani et al., 2019).



Mediation Effect

Table 8

Mediation Analysis

Path	Coefficient	Indirect Effect	Direct Effect	VAF Method
NFC to EM	0.340			
EM to EP	0.240	0.0816		
NFC to EP	0.287		0.369	22.138
FC to EM	0.254			
EM to EP	0.240	0.06096		
FC to EP	0.416		0.477	12.781

The mediation effect of motivation was analyzed between financial compensation and non-financial compensation with employees' performance. It was found that there was a significant impact of motivation between financial compensation and employees' performance. The direct impact of financial compensation on employees' performance than non-financial compensation was higher. The rule of thumb was, if the VAF is less than 20 percent, one should conclude that nearly zero mediation occurs. A situation in which the VAF is larger than 20 percent and less than 80 percent could be characterized as a typical partial mediation Hair et al. (2017), and a VAF above 80 percent indicates a full mediation. However, in this situation, the VAF is only 22.138 percent, in such non-financial compensation which implies that employee motivation had a partial role between the compensation system and employees' performance. However, the VAF was 12.781 in financial compensation and employees' performance which implies there was a very low role of employee motivation as a mediating variable in between while measuring financial compensation. It was as the impact size of financial compensation was higher than that of non-financial compensation toward employees' performance. When both financial and non-financial motivation were used then financial motivation will mediate in employees' performance. It implies that employee mediates between compensation and employee performance with similar studies found in (Gagné & Deci, 2005; Idris et al., 2020).

Moderation Effects**Table 9***Moderation Effect through Gender*

Path	Female	Male	P-Value	Supported
NFC->EM	0.3831	0.369	0.458	No
FC->EM	0.3817	0.126	0.087	No
NFC->EP	0.1479	0.495	0.997	No
FC->EP	0.7623	0.202	0.001	Yes
EM->EP	0.0749	0.213	0.729	No

Employees' gender was used to test the moderation between the compensation system and employees' performance. From the analysis, gender moderates the model between financial compensation with employee performance where it was insignificant in others. It implies that either male or female employees perform and are motivated in the organization but when there is a focus on financial compensation the gender of employees moderates their performance as similar with study of (Judge & Cable, 2011).

Hypothesis Analysis**Table 10**

<i>Hypothesis</i>	Supported (Yes/No)
There is significant relation between financial compensation with employee performance	Yes
There is significant relation between non-financial compensation with employee performance	Yes
There is significant relation between financial compensation with employee motivation	Yes
There is significant relation between non-financial compensation with employee motivation	Yes
There is significant mediation role of employee motivation between financial compensation with employee performance	Yes
There is significant mediation role of employee motivation between non-financial compensation with employee performance	Yes

Conclusion

In conclusion, this research has shed light on the significant impact that compensation has on employees' job performance in commercial banks. The study's findings highlight the importance of designing appropriate compensation and benefits schemes that can motivate employees and enhance their job performance. Additionally, the study suggests that employee motivation plays a mediating role between compensation and job performance, implying that organizations need to create a positive work environment that fosters employee motivation. The research provides valuable insights that can guide organizations in designing effective compensation strategies and improving employee performance, ultimately leading to increased organizational success.

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