



The nexus between compensation and employee effectiveness: A study of credit mall Ghana limited

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Abstract

In this study, I sought to examine the nexus between compensation and employee effectiveness using Credit Mall Limited as a case study. The study adopted the explanatory design. Data was purposefully collected from 150 respondents of Credit Mall Limited. The data was then analyzed using the Statistical Package for Social Sciences (SPSS, v 20). Findings of the study showed that all the study variables: salary, bonuses and appreciation related positively to employee effectiveness. However, salary received the highest correlation at $r=0.670$. Conclusions and directions for future studies were discussed.

Keywords: Compensation, employee effectiveness, credit mall limited, Accra

Introduction

Today's competitive business environment is forcing companies to rethink how to attract, retain and contribute to employees' effectiveness without sacrificing business goals (Udokwu *et al.*, 2023) [30]. Groenewald *et al.* (2024) [10] posited that since Human Resource Management (HRM) as a function deals with people, it must strive to ensure employees' effectiveness in the job place. According to Harney & Collings (2021) [11], the most challenge facing Human Resources Management today is employees' compensation. Piwowar-Sulej (2021) [22] is of the view that retaining and ensuring the effectiveness of employees will require a well-structured compensation system since employees who feel they are underpaid and unwell compensated feel they are undervalued and are more open to potential offers from outside firms. To a firm, the effects of turnover can be costly. The time and money it takes to recruit, re-hire and retain can quickly cut into a firm's bottom line (Van Rossenberg *et al.*, 2022) [31]. Besides the costs, especially for the high-technology companies, employees' turnover means high risks of losing its important technologies and clients (Tortia *et al.*, 2022) [29].

In the light of these, according to Riana *et al.* (2020) [25], the Human Resource Management employs many practices to retain and also ensures employees' effectiveness of which employee compensation is one. In buttressing this, Alkhazali *et al.* (2020) [3] posit that effective compensation can add value to an employees' satisfaction to stimulate employees to continually work better. Also, Rasheed *et al.* (2020) [23] shared that compensation as a strategic Human Resource Management practice has the potency to enhance employees' job satisfaction. Rasheed *et al.* (2020) [23] refer to compensation as "pay, wages, salary (remuneration) and benefit" used to reward employees".

Compensation can be defined "as anything which an employee values and desires that an employer is able and willing to offer in exchange for employee's contribution". Reddy (2020) [24] describes compensation as all forms of financial returns, tangible services and benefits that employees receive as part of an employment relationship. The author further shared that compensation as a reward system provided by the HRM should not be selective but be given to every employee whose contribution contributes to the organization's performance. The total return/rewards

model given by Reddy (2020) [24] consists of the total compensation which includes cash compensation and benefits and relational returns from work like recognition and status, employment security, and challenging work and learning opportunities. Compensation impacts multiple organizational outcomes including its ability to attract, motivate, retain and enhances employee's effectiveness (Kim & Jang, 2020) [14]. Therefore, Richard *et al.* (2020) opined that it is necessary for each organization to strive to enhance employees' satisfaction by providing a fair and competitive compensation system. However, Lomyati & Tridayanti (2023) [17] intimated that for compensation to be effective, it should be aligned with the organizational objectives.

Given the intensified competition in the Ghanaian business environment, most organizations adopt innovative compensation strategies to enhance employees' effectiveness and performance. Credit Mall (Ghana) limited a subsidiary of Teachers' Fund with oversight Human Resource Management responsibilities is well known for the best Human Resource Management practices. However, recent observations have revealed employees' dissatisfaction with the company. Reported cases of about thirty percent of the employees leaving the company have been recorded. As some employees expressed frustrations in their ability to get recognition for long service, others with upgraded qualifications are yet to be recognized. It is known that management of the company wants to chart a new path of vision. However, Som *et al.* (2023) averred that as businesses change their focus, their approach to compensation must change as well but most organization are oblivious about this. It is also perceived that most organizations do not adopt the appropriate compensation package to influence employees' effectiveness (Rahmawati *et al.*, 2023) [27]. The question then is: How have compensation as Human Resource Practice of Credit Mall (Ghana) Limited in Accra, Ghana, led to employees' effectiveness?

Findings of the study are expected to expose management of Credit Mall Limited and other organizations to the intricacies involved in compensation. This, the study believes will aid management of the firm and other organizations formulate appropriate compensation policies to result in employees' effectiveness.

Literature review

Theoretical review

John Stacey Adam's equity theory

Adams (1965) describes equity theory as the perception of how you are treated compared to others and in essence that you will be more satisfied and motivated if you think you are being fairly treated. This procedural justice element to how rewards are interpreted runs deep in terms of this performance and motivation. Armstrong (2010) states that "in general, use an evidence-based approach, which essentially means managing reward systems on the basis of evidence rather than opinion, on understanding rather than assumptions, and on an unrelenting commitment to gather the necessary facts to make more intelligent and informed decisions".

The behavioral psychologist, John Stacey Adams, developed a useful model for explaining why employee perceptions concerning fairness matters. Equity Theory (Adam's Equity Theory) explains the thought process an employee uses to determine the fairness of management decision making. The core of equity theory says that people judge the fairness of their treatment based on how others like them are treated. Employees make social comparisons to others who are similarly situated in the organization. Equity theory shows that inequities (perceived or real) harm employee motivation. Employees who feel that they are receiving inequitable treatment will be emotionally motivated to gain equity. What does this behavior look like? When inequities persist, employees may do any of the following: Decrease inputs (give less time, do less work) ii. Push for more output from the company (more pay, authority) iii. go into survival mode (do their job and little more) iv. Become resistant (act out on other issues) v. become overly competitive (focus on reducing the outputs of others) vi. Quit. The theory is adopted to underpin the study

Forms of compensation

According to Dessler (2015), compensation may be divided into two (2) forms - Direct and Indirect compensation which are delineated below.

Direct/financial compensation

Direct Compensation is usually restricted to the direct cash benefits that the employees receive on monthly, bi-monthly or weekly basis for the services they render as employees of a specific organization. They are salary, hourly (wages), and commission and bonus types of wages. It may even be in the form of stock bonus compensation, where employees of the organization are given the chance to own shares within the organization they work for and at the end of each year they have the opportunity again to gain some dividend in the form of equity on their shares. This is also referred to as Executive Stock Options (ESO).

Salary: This type of reward is customarily a set sum of remuneration over a defined period of time. The frequency of payment is another part of the compensation and is based on industry standards. In general, there is an expectation from the employer of a longer-term commitment from the employee for providing a regular uninterrupted compensation stream via a salary (Catrin *et al.*, 2023)^[7]

Wages: This is an amount per hour of service to the employer, more commonly used to compensate unskilled and skillful laborers within the work force. This kind of compensation comes with an implied understanding that in times of slow or minimal workloads, the employee might not be used to provide services. In effect, there is no guarantee of a regular cycle of pay (Catrin *et al.*, 2023)^[7].

Commission: When compensation is based on volume or some form of performance, this is often referred to as commission-based remuneration. Different terms used include piecework or piecemeal. Many industries used this kind of remuneration to get a minimum standard of production in exchange for compensation (Li *et al.*, 2023). It is used to shift risk from the employer to the employee. There are two ways to calculate commission. One is based on volume of services and the other is based on sales.

Bonuses: Bonuses are used to increase performance from the employee. This is often a variable type of remuneration and is more commonly found with salaried workers to incentivize them for a specific goal whether time or volume based (Bykova *et al.*, 2023)^[6]. Other reasons used for bonuses are to increase or maintain retention of certain skills or the pool of skill-sets required within the company. Generally, bonuses are paid when a company meets certain financial standards or goals over an extended period of time. Bonuses are not usually used with hourly or commission-based employees due to the nature of the type of compensation already established.

Indirect Compensation/Benefits

Baqi & Indradewa (2021)^[5] refer to Indirect Compensation as the indirect monetary and non-financial payments employees receive for continuing their employment with the company which are an important part of every employee's compensation. Other terminologies like fringe benefits, employee services, supplementary compensation and supplementary pay are used. Indirect compensation is primarily the various types of benefits and long-term incentives. Fulmer *et al.* (2023)^[9] state that fringe benefits include any kind of programs that provides time off, employee services and protection programs. Fringe benefits refer to indirect forms of compensation that are meant to attract, retain and motivate employees (Baqi & Indradewa, 2021)^[5]. The authors attest that fringe benefits consist of non-cash elements of the reward that are provided by the employer either to all employees or differentiated by level. Employee benefits consist of arrangements made by employers to improve their employees' well-being.. Benefit packages for employees are integral to the monetary reward package, and for many organizations, the employer brand determines the type of benefits offered, that successively, support the messages to be delivered via the employer brand. According to Lomyati *et al.* (2023)^[17], indirect compensation or employee benefits are elements of remuneration given additionally to the various forms of cash pay. Benefits included are paid vacation, sick leave, health & life insurance and maternity/family leave (Lomyati *et al.*, 2023)^[17]. Attributable to the increasing costs of fringe benefits, some employees also label them as 'hidden payroll'. According to Baqi & Indradewa (2021)^[5], the basic purpose of fringe benefits or supplementary compensation is to attract and maintain employees whiles contribute effectively to organizational performance

Salary and employee effectiveness relationship

Salaries and wages are very significant to employees. Catrin *et al.* (2023)^[7] argued that salaries and wages must show a few elements of equity instead of focusing on adequate wages. This is because an adequate salary will provide satisfaction and enhance employee effective contribution to output (Kristal *et al.*, 2020)^[15]. An employee aims to earn income either in the form of financial or non-financial. Prior studies (Indriyani & Nugroho, 2022)^[13] indicated that the amount of wages paid to the employee must be attainable to fulfill their needs for daily life. Fringe benefits and nature of the working environment are the main factors that influencing employee effectiveness performance (Zulher *et al.*, 2022)^[32]. A positive change in salary from the employer such as salary and wage increment or increasing the size of the current salary of the employee will encourage them to be effective and improve their performance in the organization. A research conducted by Maria *et al.* (2024)^[19] showed that there is a strong positive relationship between employee performance and effectiveness and financial rewards such as salary and wages. However, Reddy (2020)^[24] avers that the impact of compensation and benefits on employee effectiveness and performance depends on the existing compensation and performance management programs in the organization. Based on the literature, it was hypothesized that:

H1: Salary will relate positively to employee effectiveness

Bonuses and employee effectiveness relationship

Bonus is a payment that was not expected from the employees and the old line to some of the organization. The decision made to pay is either to a group of employees or a person. The management needs to decide which criteria needed to reward the past achievements of the employee (Zulkarnain & Saputri, 2024)^[33]. For instance, the employee reaches specific profit or achieve sales target for the organization, and influence employees' behavior to achieve the objectives by providing an incentive such as a bonus to define an incentive as a progressive plan for the employee. The incentive aims to work towards the goals. Another definition of bonus by scholar, it is defined as one payment made at the end of the year to reward extraordinary employees who achieve organization goals (Alfitian *et al.*, 2023)^[2]. Notwithstanding the differences in bonuses and incentives, both are designated to motivate employee. Some straightforwardly give the worker money. Rewards based on execution against spending plan, quality or different norms might be utilized as prompt money related motivating forces. A study by Ihemereze *et al.* (2023)^[12] showed that bonus payments motivates and satisfies employees to be effective. Inferring from the literature, the study hypothesized that:

H2: Bonuses will positively relate to employee effectiveness

Appreciation and employee effectiveness relationship

Appreciation is an expression of someone to thank for extra effort done by the employee in an organization. According to Noorazem *et al.* (2021)^[21], the significance of appreciation is to encourage the employees and to encourage others to do the same. Appreciation can be done through formal or informal and it is an effective way that does not have cost. However, an appreciation or gratitude

should not be done or rely on a formal event organized by the organization as it can create a border and unhelpful to maintain employee's effectiveness in the organization (Montani *et al.*, 2020)^[20]. Accordingly, the authors argued that a sincere thank you from the employer will create a good environment that will increase productivity and employee effectiveness in the organization, and also improve social network between the employer and employees. A study conducted by Alabi *et al.* (2022)^[1] among selected banks in Nigeria confirmed a positive result of non-financial rewards such as recognition and appreciation on employee effectiveness and performance. Also, other studies such as Chien *et al.* (2020)^[8] and Aljumah (2023)^[4] showed that appreciation and other non-financial rewards motivates employees and make them contribute effectively to organizational output. Therefore, it was hypothesized that:

H3: Appreciation will relate positively to employee effectiveness

Contextual framework

Figure 1 demonstrates the framework that relates to the concepts and the central themes of the study. The conceptual framework establishes the link between compensation strategies such as salary, bonuses and appreciation as (independent variables) and employee effectiveness as (dependable) variable

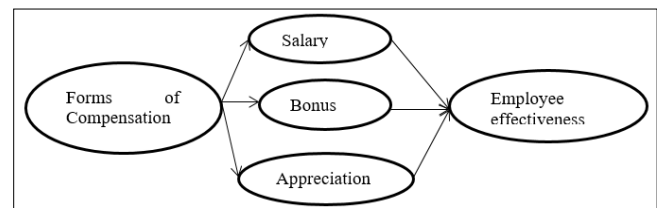


Fig 1

**Conceptual Framework
Author's Construct, 2024**

Methodology

Research design

The study adopts the explanatory design. According to Saunders *et al.* (2009), explanatory design helps a researcher to obtain information about a situation or problem in order to explain the relationship among variables; since the study intends to investigate the relationships between the stated variables, the adopted design is considered appropriate.

Population of the study

Population refers to the entire group about which some information is required to be ascertained (Banerjee *et al.*, 2007). The population for this study consists of all the employees of Credit Mall Ghana Limited

Sampling technique and sample size

Sampling is the processes of selecting units from a population of interest so that by studying the sample, we may fairly generalize our results back to the population from which they were chosen (Fowler, 2008). For the study, the purposive sampling technique was used since the focus was on only employees of Credit Mall Limited

Sample size

A sample size, according to Agresti & Finlay (2009) is “a sub-set of a population”. For the study, a sample size of 150 is selected to represent the entire population of Credit Mall employees in Accra. According to Kent (2007), a sample size of one hundred (100) and beyond is sufficient for quantitative research. Inferring from Kent (2007), the chosen sample size is regarded appropriate

Sources of data

Field survey will be used to solicit data from respondents. Questionnaires and interviews will be the instruments used for the data collection.

Distribution of questionnaires

The questionnaire was administered by hand to respondents by the researcher. The questionnaire administration took approximately a month with each respondent spending about 15 minutes in responding to the questionnaire.

Data analysis

The study made use of Statistical Package for Social Sciences (SPSS) version 21.0 for the data analysis. Presentations of the findings are tabulated and discussed with reference to existing studies to ensure easy understanding.

Validity and reliability

Reliability suggests the degree to which measurements are conducted effectively. To ensure reliability, the Cronbach Alpha (α) was used. According to Devellis (2003), the Cronbach alpha coefficient should be above 0.7. Cronbach alpha values above 0.7 are acceptable and values that are above 0.8 are preferable. The validity of the study was also ensured by pre-testing the questionnaire.

Ethical consideration

Ethics involves ‘the codes of behaviour adopted by the researcher (Zikmund, 2000). It is also the moral principles that guide researchers to conduct research without deception or intention to harm the participants of the study. Polychronidou *et al.* (2014) also shared that the participants' volunteering rights and confidentiality must be of importance to the research process. Guiding by this principle, participants were encouraged to participate at will.

Results and discussion

Background characteristics of f respondents

The gender distribution showcases a relatively balanced representation within the surveyed population. Approximately 80(53.3%) of respondents identify as male, while 70(46.7%) identify as female. The dataset presents a diverse spread across various age brackets, showcasing a comprehensive spectrum of experiences and perspectives.

Around 25 of respondents fall within the age groups of 21-26, 43 of respondents fall within the age groups of 27-32, 52 of respondents fall within the age groups of 33-38, 30 of respondents fall within the age groups of 39-44 years.

The tenure distribution within organizations illustrates a balanced representation across varying experience levels. Around 30 of respondents fall within 1-4years experience, 60 of respondents fall within 5-8years experience, 40 of respondents fall within 9-12years experience whilst 20 of respondents fall within 13 and above years of experience.

This diversity in experience levels signifies a comprehensive dataset encompassing insights from employees with varied tenures, potentially offering contrasting viewpoints and a holistic understanding of Credit Mall operations

Reliability statistics

To ascertain the stability and internal consistency of the responses received, the Cronbach Alpha (α) was used. Devellis (2003) posits that the Cronbach Alpha coefficient should be above 0.7 and that Cronbach Alpha of 0.7 is found reliable and values that are above 0.8 preferable. The coefficient value of Cronbach Alpha realized for the three variables of the study is 0.860 which is higher and preferable. This is evident in Table 1

Table 1: Reliability of variables

Cronbach's Alpha	Number of Items
0.804	4

Source: Researcher's Field Work, 2024

Pearson's correlation analysis

The correlation analysis shows the relationship between the independent variable (salary) and the dependent variable (employee effectiveness). The correlation between the two variables shows $r=0.670$ and $p=0.0001$. The strength of the relationship can be said to be significantly positive in that a unit increase in salary will result in 0.670 increases in employee effectiveness. The results are presented in Table 2

Table 2: Pearson's Correlation between Salary and Employee Effectiveness

		EF	S
Employee Effectiveness	Pearson Correlation	1	.670**
	Sig. (2 tailed)		.000
	N	150	150
Salary	Pearson Correlation	.670**	1
	Sig. (2 tailed)	.000	
	N	150	150

Source: Researcher's Field Work, 2024

** Correlation is significant at the 0.01 level (2-tailed)

*** EF and S denotes Employee Effectiveness and Salary respectively

The statistics analysis demonstrates the relationship between the independent variable (bonuses) and the dependent variable (employee effectiveness). The correlation between the two variables shows $r=0.520$ and $p=0.0001$. The strength of the relationship can be said to be partially positive in that a unit increase in bonuses will result in 0.520 increases of employee effectiveness. Table 3 presents the results

Table 3: Pearson's Correlation between Bonuses and Employee Effectiveness

		EE	B
Employee Effectiveness	Pearson Correlation	1	.520**
	Sig. (2 tailed)		.000
	N	150	150
Bonuses	Pearson Correlation	.520**	1
	Sig. (2 tailed)	.000	
	N	150	150

Source: Researcher's Field Work, 2024

** Correlation is significant at the 0.01 level (2-tailed)

*** EE and B denotes Employee Effectiveness and Bonuses respectively

The statistics analysis demonstrates the relationship between the independent variable (appreciation) and the dependent variable (employee Effectiveness). The correlation between the two variables shows $r=0.450$ and $p=0.0001$. The strength of the relationship can be said to be positive in that a unit increase in appreciation will result in 0.450 increases of employee effectiveness. Table 4 presents the results

Table 4: Pearson’s Correlation between Appreciation and Employee Effectiveness

		EE	A
Employee Effectiveness	Pearson Correlation	1	.450**
	Sig. (2 tailed)		.000
	N	150	150
Appreciation	Pearson Correlation	.450**	1
	Sig. (2 tailed)	.000	
	N	150	150

Source: Researcher’s Field Work, 2024

** Correlation is significant at the 0.01 level (2-tailed)

*** EE and A denotes Employee Effectiveness and Appreciation respectively

Discussions of findings

H1: Salary will relate positively to employee effectiveness

The study’s first hypothesis, salary will relate positively to employee effectiveness ($\beta= .670$, $p<.000$) was supported by the statistical result. The results support the hypothesis laid out by the study. Findings of the study support extant literature. For instance, Kristal *et al.*, (2020)^[15] posit that Adequate salary will provide satisfaction and enhance employee effective contribution to output. This is because salaries and wages are very significant to employees. Hence, a positive change in salary from the employer such as salary and wage increment or increasing the size of the current salary of the employee will encourage them to be effective and improve their performance in the organization. Findings of the study also support the work of Maria *et al.* (2024)^[19]. In their study, the authors found a strong positive relationship between employee performance and effectiveness and financial rewards such as salary and wages. However, it has been asserted that that the impact of compensation and benefits on employee effectiveness and performance depends on the existing compensation and performance management programs in the organization (Reddy, 2020)^[24]

H2: Bonuses will positively relate to employee effectiveness

Regarding the study’s second hypothesis, bonuses will relate positively to employee effectiveness ($\beta= .520$, $p<.000$) was supported by the statistical result. The results support the hypothesis laid out by the study. The implication is that, a careful structured bonuses criterion rewarding achievements of the employee will influences the level of employees’ interaction and relationship with the organization resulting in employee effectiveness. Hence, it behoves management to decide which criteria needed to reward employees’ achievements. For instance, an employee reaches specific profit or achieve sales target for the organization, reward in the form of bonuses can be offered to influence the employee’s behavior to enhance his effective contribution to organizational out. Theoretically, employees who assume they are motivated and compensated

fairly after achievement are satisfied and motivated to be effective in the discharge of their duties to the organization. Studies have shown that payment made at the end of the year to reward extraordinary employees who achieve organization goals has the potential to increase employee effectiveness (Alfitian *et al.*, 2023)^[2].

H3: Appreciation will relate positively to employee effectiveness

The study’s third hypothesis, appreciation will relate positively to employee effectiveness ($\beta= .450$, $p<.000$) was supported by the statistical result. The results support the hypothesis laid out by the study. The result of the study is in tandem with the work of Alabi *et al.* (2022)^[11]. In their study, Alabi *et al.* (2022)^[11] found a positive result of non-financial rewards such as recognition and appreciation on employee effectiveness and performance. Also, other studies such as Chien *et al.* (2020)^[8] and Aljumah (2023)^[1] showed that appreciation and other non-financial rewards motivates employees and make them contribute effectively to organizational output. The significance of appreciation is to encourage the employees and to encourage others to do the same, hence, its effects on employees’ effective contribution to output (Noorazem *et al.*, 2021)^[21]. Studies have demonstrated that a sincere thank you from the employer will create a good environment that will increase productivity and employee effectiveness in the organization (Montani *et al.*, 2020)^[20].

Conclusion

The business environment has become increasingly competitive, hitherto not same was witnessed. Retaining and attracting employees has become imperative given that the effects of turnover can be costly. The time and money it takes to recruit, re-hire and retain can quickly cut into a firm’s bottom. However, retaining and ensuring the effectiveness of employees will require a well-structured compensation system since employees who feel they are underpaid and unwell compensated feel they are undervalued and are more open to potential offers from outside firms. In the study, salary was found to positively relate to employee effectiveness hence, HR managers are encouraged to fashion out appropriate compensation (in terms of salary) and performance management programs in the organization to enhance employee effectiveness. The study farther found both bonuses and appreciation to be related positively to employee effectiveness. Thus, management must recognize the significance of bonuses as a type to incentivize employees to enhance their effective in the organization. This can also be used effectively to retain employees of unique skill-sets in the organization. Regarding appreciation, management is encouraged to show appreciation to deserving employees. This gesture, albeit not costly, can be used to encourage other employees to give off their best. However, it is imperative to know that, the appreciation should be sincere. A sincere thank you from the employer will create a good environment which has the potential to increase productivity and employee effectiveness in the organization, and also improve social network between the employer and employees.

Suggestion for future research

The contributions of the study form a solid basis for future research. The focus of the study was on the private sector.

Future studies could have a focus in the public sector. Also, only salary, bonuses and appreciation as a form of compensation were examined. Future studies could also examine the other forms of compensation and how they influence employee effectiveness

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