



## Analyzing the effects of compensation on employee performance in the South African healthcare sector

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### Abstract

The study analysis the effects of compensation on employee performance in the healthcare sector of Johannesburg, South African. The survey design was adopted. The purposive sampling technique was used to collect data from 110 employees of selected healthcare employees in Johannesburg, South African. The Statistical Package for Social Scientists (v20) was employed for the data analysis. The study's findings should a significant relationship between the independent variables (salary, bonuses and appreciation) and the dependent viable (employee performance) with a beta value of .604, 482 and .602 respectively. Policy implications for healthcare managers in Johannesburg as well as suggestions for future studies are presented.

**Keywords:** Compensation, healthcare, employees, Johannesburg, South Africa

### Introduction

Today's competitive business environment is forcing companies to rethink how to attract, retain and contribute to employee effectiveness without sacrificing business goals. Knies, Boselie, Gould-Williams & Vandenabeele (2024) <sup>[14]</sup> posit that since Human Resource Management (HRM) as a function deals with people, it must strive to ensure employee effectiveness in the job place. According to Kang & Lee (2021) <sup>[12]</sup>, the most challenge facing HRM today is employee compensation. Reddy (2020) <sup>[22]</sup> is of the view that retaining and ensuring the effectiveness of employees will require a well-structured compensation system since according to Putra & Gupron (2020) <sup>[21]</sup>, 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 employees can quickly cut into a firm's bottom line (Chourasia, Bahuguna & Raju, 2022). As a result, Tortia, Sacchetti & López-Arceiz (2022) <sup>[29]</sup> aver that the HRM employs many practices to retain and also ensures employees' effectiveness of which employee compensation is one. In buttressing Kim & Jang (2022) intimated that effective compensation can add value to an employee satisfaction to stimulate employees to continually work better. Also, Tortia *et al.* (2020) shared that compensation as a strategic HRM practice has the potency to enhance employee job satisfaction.

Gerhart (2023) <sup>[9]</sup> describe 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 Gerhart (2023) <sup>[9]</sup> 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 (Gerhart, 2023) <sup>[9]</sup>. Therefore, Elisa, Nabella & Sari (2022) <sup>[7]</sup> opined that it is necessary for each organization to strive to enhance employees' satisfaction by providing a fair and competitive compensation system. However, Tumi, Hasan & Khalid (2022) <sup>[30]</sup> intimated that for compensation to be effective, it should be aligned with the organizational objectives.

Given the intensed competition in the healthcare care sector in Johannesburg, South Africa, most of these healthcare organizations have adopted innovative compensation strategies to enhance employees' effectiveness and performance. However, Gerhart (2023) <sup>[9]</sup> avers that as businesses change their focus, their approach to compensation must change as well but most healthcare centers in Johannesburg are oblivious about this. It is also perceived that most of these healthcare centers do not adopt the appropriate compensation packages to influence employee effectiveness; this has resulted in the inability of the compensation packages to enhance employees' effectiveness as shared by Fulmer, Gerhart & Kim (2023) <sup>[9]</sup> <sup>[8]</sup>. The question then is: How have compensation as HR practices, led to employee effectiveness in the healthcare sector of Johannesburg, South Africa?

Findings of the study are expected to expose management of healthcare centers in Johannesburg and other organizations to the intricacies involved in compensation. This, the study believes will aid healthcare management and other organizations formulate appropriate compensation policies to result in employee effectiveness. The study is also expected to aid healthcare management and other organizations place importance to the development of its employees to be economically productive and efficient. The findings will also add to the existing body of knowledge on the subject thereby serving as a literature for students and researchers who would want to delve deeper on the subject.

### Stated hypothesis

**H1:** there will be a significant positive relationship between salary and employee performance

**H2:** Bonuses will have a positive relationship with employee performance

**H3:** there will be a positive relationship between appreciation and employee performance

## Literature review

### Conceptual review

#### Concept of human resource management

Human resource practices are informal approaches used in managing individuals (Wang, Kim, Rafferty & Sanders, 2020) <sup>[13, 32]</sup>. Several researchers have studied HRM practices and its relationship with individual and organizational outcomes. For instance, Kawo & Wright (2020) <sup>[15]</sup> examined the influence of high-performance human resource practice on employees' attitudes and behaviors. They discovered that high-performance human resource practice is positively related to employees' attitudes and behaviors that affects organizational commitment and fully mediate the link between employees' retention and human resource practices. Furthermore, Vanhala & Ahteela (2020) <sup>[31]</sup> investigated the relationship between human resource management practices and trust and found that the perceptions of the fairness and functioning of human resource management practices are connected to employee trust. The present study therefore presents varied theories adopted by various researchers, a conceptual review of the variables, a framework portraying a functional relationship and summary of available literature. This study also targeted on compensation and the way compensation strategies impact employee performance

#### Compensation practices

Compensation is one of the human resource management practices that normally refer to pay, wages, salary, and benefit, etc. (Chourasia *et al.*, 2022). Compensation is the reward system a company provides to all employees who contribute to the organization's performance (Amin, Khairuzzaman, Zaleha, & Daverson, 2021) <sup>[3]</sup>. The reward system is based on the performance of the employees that ultimately enhances the firm's performance (Amin *et al.*, 2021) <sup>[3]</sup>. Performance-based compensation has a positive effect on employee and organizational performance (Kim & Jang (2022)). Therefore, workers should be offered rewards, incentives, and social benefits in order to motivate them to better performance. Hence, Fulmer *et al.* (2023) <sup>[8]</sup> argued that companies can only outperform others once they have a successful business strategy and smart compensation system that helps and gets support from the highest-paid executives and right down to the lowest-paid worker. Based on the literature review, compensation, rewards, and social benefits are considered indispensable HR practice to engender employee and organizational performance

#### Forms of compensation

According to Goel (2023) <sup>[10]</sup>, compensation may be divided into two (2) forms - Direct and Indirect compensation which are discussed below in detail.

#### 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.

**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.

**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. 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 (Ponta, Delfino & Cainarca, 2020) <sup>[20]</sup>. 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 (Ponta, 2020) <sup>[20]</sup>. 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

Goel (2023) <sup>[10]</sup> refers 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, appreciation, employee services, supplementary compensation and supplementary pay are used. Indirect compensation is primarily the various types of benefits and long-term incentives. Sorn, Fienena, Ali, Rafay & Fu (2023) <sup>[27]</sup> state that fringe benefits include any kind of programs that provides time off, employee services and protection programs. According to Som *et al.* (2023), fringe benefits refer to indirect forms of compensation that are meant to attract, retain and motivate employees. Rose (2020) <sup>[23]</sup> attests 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.

**Salary and employee performance relationship**

According to Akhmad, Estiana & Rusdiana (2023) [2], salaries and wages are very significant and, they must show a few elements of equity instead of focusing on adequate salaries/wages. This is because an adequate salary will provide satisfaction and enhance employee performance in an organization. An employee aims to earn income either in the form of financial or non-financial. Past studies by Ruihong (2023) [24] indicated the amount of salaries/wages paid to the employee must be attainable to fulfill their needs for daily life. A positive change in salary from the employer such as salary increment or increasing the size of the current salary of the employee will encourage them to improve their performance in the organization. Ruihong (2023) [23] showed that there is a strong positive relationship between employee performance and financial rewards such as salary. However, a research conducted by Bandonono, Nugroho, Suharyo & Susilo (2023) shows that the variables of salary have a partial and partial effect simultaneously on employee performance Bandonono, Nugroho, Suharyo & Susilo (2023) shows that the variables of salary have a partial and partial effect simultaneously on employee performance. Inferring from the literature, the study hypothesis as follows:

**H1:** there will be a significant positive relationship between salary and employee performance

**Bonuses and employee performance relationship**

Bonus is a payment that was not expected from the employees and the old line to some of the organization (Shields, Rooney, Brown & Kaine, 2020) [26]. The decision made to pay is either to a group of employees or a person. The management needs to decide what criteria needed to reward the past achievements of the employee. 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. Most of the bonus is a tangible reward such as cash. Despite there is a difference in bonuses and incentives, both are designated to motivate employee. Madike (2023) [16] found that financial compensation such as bonuses have a positive and significant effect on employee job performance. Most organizations utilize monetary pay to motivate their workers. A previous study conducted by Noorazem, Md Sabri & Mat Nazir (2023) found that bonuses have significant impact on employee performance. Hence, the study hypothesis that:

**H2:** bonuses will have a positive relationship with employee performance

**Appreciation and employee performance relationship**

Non-financial compensation has been classified an important strategy augmenting financial compensation to enhance employee job satisfaction thereby inducing performance Sabatini, Putra, Tridayanti & Damayanti, 2021) [25]. Non-financial compensation such as appreciation is an expression of someone to thank for extra effort done by the employee in an organization. According to Sabatini *et al.* (2021) [25], 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 performance in the organization (Thapa, 2023) [28].

In the argument of Abubakar, Esther & Angonimi (2020) [1], a sincere thank you from the employer will create a good environment that will increase productivity in the organization and also improve social network between the employer and employees. A study conducted by Özutku (2019) [19] among Turkish banks showed a positive result of non-financial rewards such as appreciation on organizational and employee performance. However, the study of Mahathir, Matondang & Wibowo (2020) [17] found that non-financial compensation is influential but does not show a significant effect on work motivation and performance. Inferring from the literature, it was hypothesis as follows:

**H3:** there will be a positive relationship between appreciation and employee performance

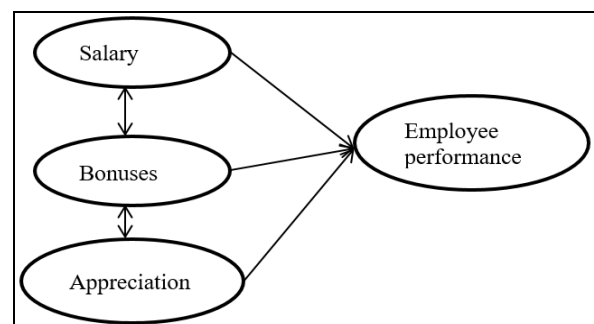
**Empirical review**

**Saman (2020) conducted a study entitle:** Effect of compensation on employee satisfaction and employee performance. The explanatory research design was used. 51 respondents from a mining company form the sample-size. The data analysis of the study was carried out using a model equation structural -based variance or component-based structural equation model, which is known by the Partial Least Square (PLS). The results of the study revealed that compensation has a significant effect on job satisfaction, in addition, compensation also has a significant effect on employee performance.

In their study, Noorazem, Sabri & Mat Nazir (2021) [18] tested the impact of salary, bonuses, appreciation and medical benefits on employee performance. The study adopted a quantitative approach where 132 sets of questionnaires were distributed to the participants selected using convenience sampling. Data were then analyzed using SPSS software and a few analyses were carried out such as correlations analysis and regression analysis. The results show that all variables have a significant impact on employees' performance.

**Conceptual framework**

Given the stated hypotheses of study, a construct was developed to test the study's hypotheses i.e. salary, bonuses and appreciation (the independent variables) and employee performance (the dependent variable), Figure 1 presents the construct



Source: Author's Construct, 2024

Fig 1: Salary, bonuses, and appreciation and employee performance construct

Based on the framework in Figure 1, compensation is conceptualized operationally to constitute three benefits salary, bonuses, and appreciation even though there are other benefits as well, the study could not extend to them. The independent variables in the model above are salary, bonuses, and appreciation while the dependent variable is employee performance. The hypotheses of the study are reflected by the links between salary, bonuses, and appreciation and employee performance.

**Methodology**

The Study employed the quantitative and the descriptive cross-sectional survey research. The data were collected at one point in time for a sample selected to represent a larger population of the study. According to Owens (2002), cross-sectional surveys make it possible for a group of respondents to be asked a set of questions at one point in time. A quantitative research approach was adopted since the data was gathered using structured questions. All the healthcare centers in Johannesburg constituted the study’s population. Both the convenient and purposive sampling technique was used.

The G\*Power analysis was used to determine the sample size in a quantitative manner. The study uses effect size of 0.15 which is considered moderate. Alpha of 5% is used and is divided by the number of predictors which is the three components of compensation; producing alpha of 0.01 against which each hypothesis will be tested. The study also used beta of 0.80 and the sample size obtained is 92 respondents is obtained as the minimum sample size. To account for possible dropout of the participants, the study added 20% more respondents bringing the final sample size to 110 (n = 92 + 20% = 110).

The source of data was primary and secondary. A structured questionnaire was used as instrument for data collection from respondents. Journals and text books served as secondary source of data

The study’s validity was ascertained by pre-testing the questionnaires to the target respondents who could not partake in the study. Minor modification was made after the pretest to ensure the study accurately measures what it was intended to measure. Reliability on the other hand was ascertained with the use of Cronbach alpha coefficient

The Statistical Package for Social Sciences (SPSS) v. 23 was used for data analysis. In ascertaining the relationship between the independent variables and the dependable variable, the regression analysis was carried out. All respondent participated at will. Also anonymity and confidentiality of respondents was observed

**Results and discussions**

The study ascertained demographic information of respondents in the healthcare sector in Johannesburg. The demographic information obtained includes the gender, educational level, age bracket, and the number of working years in the sector. The study administered 110 questionnaire instruments and there was a 100% response rate.

Based on the result obtained, 67 (60.91%) of the respondents were males and 43 (39.09%) were females. In terms of the highest educational level of the respondents, 32 (29.09%) indicated that they have pre-tertiary educational qualification, 47 (42.73%) has tertiary educational qualification, and 31 (28.18%) of the respondents have post

graduate degrees. This result showed that majority of the respondents sampled have tertiary educational qualification. In terms of age bracket of respondents, 25(22.7%) of the respondents were below 30 years, 30 (27.30%) of the respondents have at most 30 years, 35 (31.80%) had 31 to 40 years, 20 (18.20%) had 41 to 50 years.

Regarding the number of years employees have worked in the healthcare sector, the study found that 17 (15.45%) have been in the sector for at most two years, 28 (25.45%) have been in the sector for 3 to 4 years, 27 (24.55%) have been in the sector for 5 to 6 years, 20 (18.18%) of the employees have been in the sector for 7 to 8 years, 10 (9.09%) for 9 to 10 years, and 8 (7.27%) for more than 10 years.

**Stated hypothesis**

**H1:** there will be a significant positive relationship between salary and employee performance

**H2:** Bonuses will have a positive relationship with employee performance

**H3:** there will be a positive relationship between appreciation and employee performance

**Test of hypotheses**

In testing the hypotheses of the study, the reliability test of the study’s variables were ascertained. A Cronbach alpha of 0.7 is found reliable. The study’s coefficient value of Cronbach alpha realized for the four variables is 0.804 which is higher implying a high internal consistency Table 1 presents the results

**Table 1:** Reliability variables

SN	Cronbach alpha	Number of items
1	0.804	4

Source: Fieldwork, 2024

**Regression analysis**

The regression analysis technique was applied to measure the relationship between the compensation strategies such as: salary, bonuses, appreciation and employee performance. All the three identified compensation strategies showed a significant relationship on the employee performance. The regression results are shown in table 2

**Table 2:** Regression results

Hypotheses Results	Independent variable	B	Standard Error	T	Sig(P)
H1 Accepted	Salary	.604	.087	4.077	.000
H2 Accepted	Bonuses	.486	.087	2.569	.012
H3 Accepted	Appreciation	.602	.087	.0220	.001

Source: Fieldwork, 2024

**The impact level of compensation strategies on employee performance is discussed below**

**Impact of salary on employee performance**

As shown in table 2, salary has a significance value (p) 0.000 which is less than 0.05. It denotes that this compensation strategy has a significant relationship with employee performance. Having higher beta value i.e., 0.604, this compensation strategy is ranked as first among the other strategies. Hence, H1 is accepted. The results of this study is in tandem with literature that all organizations use money, promotion, bonuses or other types of rewards to motivate

and encourage high-level performances of employees. But money has the supremacy to magnetize, maintain and motivate individuals towards higher performance (Ihemereze *et al.*, 2023) <sup>[11]</sup>. Also, in the study of Reddy (2020) <sup>[22]</sup> it was submitted that money is a prime motivator of employees' job satisfaction and performance. Ideally, most employees respond to increases in pay and benefits with a positive and more productive attitude. All things being equal, if employees receive their salary every month, they are happy since they can also meet some domestic and other financial obligation. It is true to the case that no employee would be happy when salaries are delayed or not paid. Sometimes, employees only notice rewards of a salary increase the day the increase is communicated to them, and the day they receive the first paycheck that includes the salary increase, they get "over the moon"

### Impact of bonuses on employee performance

According to the results, bonuses have a p-value 0.012 which denotes a significant impact on employee performance at 5% significant level. Hence, the result of this research shows that bonuses as a compensation strategy used by healthcare managers in the Johannesburg has a positive effect on employee performance. Hence H2 is accepted. As the beta value .486, this strategy is considered as the third important compensation strategy next to appreciation. Findings of previous studies such as Thapa (2023) <sup>[28]</sup>, the author views bonuses as variable type of remuneration that is more commonly found with salaried workers to incentivize to enhance performance. This is also shared by Abubakar *et al.* (2020) <sup>[1]</sup>. According to the authors, the reason why most organizations prefer the usage of bonuses is that they are the easy way to thank the workers. Bonus also has the potential to increase employee morale and motivate workers to reach goals. When employees are happy, the organization is primed to perform better than ever. The purpose of motivating through bonuses is also carefully linked to the purpose of supporting the employees' happiness in relation to the organizations. Generally bonuses are paid when a company meets certain financial standards or goals over an extended period of time. This payment motivates employee to put in more effort. Employees are on the other hand happy once they know that their efforts will be rewarded in the form of bonuses

### Impact of appreciation on employee performance

The regression results of this research showed that there is a significant positive association at 5% significance level between appreciation and employee performance as the p-value is less than 0.01. Hence H3 is accepted and concludes that there a significant positive relationship between appreciation and employee performance. Considering the beta value .602, this strategy is considered as the second important compensation strategy next to salary. The result of this study is in consonance with extant literature. Chi *et al.* (2023) <sup>[5]</sup> intimated that appreciation is part of fringe benefits in the form of indirect compensation that are meant to attract, retain and motivate employees to increase performance. Putra & Gupron (2021) intimated also that successful organizations understand that appreciation provided through recognition and rewards creates a company culture where employees feel valued and respected. This is supported by Mahathir *et al.* (2020) <sup>[17]</sup>. Generally, every employee would want to be appreciated for a good job done. Appreciation shows that management

recognizes the effort exacted and this goes a long way to increase employees' happiness and performance. Ultimately, people want to be paid well and as well be treated well. Hence, appreciation as non-financial compensation is regarded significant

### Conclusion

The study contributes in understanding the influence of Human Resource Management practices on the performance of employees. The results provide the sufficient evidence to say that, Human Resource Management practices such as compensation benefits have a positive and statistically significant relationship with employee performance. The results show a significant and positive relationship between compensation (financial and non-financial) and employee performance. A comprehensive compensation system can contribute a lot to attract and retain competitive human resources and can also shape the behaviours and performance of employees. The results of the present study are in accordance with and validate the results of earlier studies creating harmony with the results that Human Resource Management practices of compensation have a positive and significant relationship with employee performance.

### Policy implication for healthcare managers

The study has some policy implications for healthcare managers

Healthcare managers should be more concerned with policies and practices related to employees which results into developing the employees' performance. Since a positive relationship exists between compensation and employee performance, Healthcare managers should formulate holistic compensation packages (financial and non-financial) to enhance employees' performance to achieve organizations' objectives. When there is an effective compensation system, employees' performance increase and when compensation is not effective, it will lead to a decrease in employees' performance.

### Future research

Regardless of some limitations, this study contributes well to understand and validate the relationship of the HR practices of compensation and employee performance. Future studies can take larger samples to validate the results of the present study.

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