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The Impact of Compensation and Job Satisfaction on Employee Performance

A Case Study of PT Bank XYZ (Persero) Tbk

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Abstract: This research investigates the relationship between compensation and job satisfaction and the latter's influence on employee performance and productivity at PT Bank XYZ (Persero) Tbk, South Jakarta. By using SmartPLS 4.1.0.1 partial least square in analyzing the data from 135 respondents, it was found that compensation has a positive effect on employee performance but no influence on productivity. In contrast, job satisfaction positively affects productivity but does not influence performance. The results showed that employee productivity has a significant influence on performance. Moreover, this study indicated that employee productivity mediates the relationship between job satisfaction and performance but fails to mediate the relationship between compensation and performance. The results also show that employee productivity is integral to boosting performance, showing a remarkable linkage between them. Interestingly, its finding suggests that higher job satisfaction leads to increased employee productivity through performance. At the same time, research also confirms that productivity does not mediate the relationship between compensation and performance. While compensation may lead to better performance directly, it does not necessarily result in higher productivity. These findings further solidify the idea that happiness at work can increase productivity, which directly impacts business results. The results would be invaluable to the Bank itself as a guide for managerial practices, indicating that private sector policies other than remuneration adjustments may likely be more cost-effective in achieving improved productivity and performance levels through enhanced job satisfaction.

Keywords: Compensation; Job Satisfaction; Employee Productivity; Employee Performance; Financial Institutions.

1. Introduction

In the age of global industrialization, growth is a crucial factor for companies seeking to remain economically competitive. Globalization, characterized by unprecedented interconnectedness, has enabled companies to expand globally, enhancing their growth and development opportunities (Petricevic & Teece, 2019). These interconnections necessitate that firms continuously strive for higher performance levels to survive and thrive in the global environment (Kolk et al., 2017; Putranti et al., 2018). In other words, organizations should address factors that affect the employees and how they may impinge on organizational performance to optimize results and returns. However, many companies still struggle to identify the key drivers that influence employee productivity and performance in this rapidly evolving global landscape, notably in the financial services sector, where the competition is extremely high.

Culture and human resources are some of the most critical success factors since they include the leading and following personnel – the people who drive an organization. Labor capital is acknowledged as one of the key resource organizations cannot do without, acting as a bedrock on which a business's competitive edge and sustenance depend (Collings et al., 2018). Terms such as proficient and engaged employees play a great role in increasing productivity, innovation as well and improvement of service delivery, which is very crucial in maintaining competitiveness (Boon et al., 2018).

Effective monitoring and managing employee performance is essential for attaining organizational objectives (Weiss & Hartle, 2023). Performance management systems, which encompass regular feedback, appraisals, and opportunities for professional growth, aid in aligning individual goals with the organization's goals, thereby promoting a culture of ongoing enhancement. Additionally, strategic human resource management strategies, such as talent management and fostering employee engagement, are crucial for improving organizational performance by ensuring that individuals are placed in suitable positions and are motivated to excel (Kossyva et al., 2024).

Numerous research efforts have shown a favorable link between compensation and the effectiveness of employees. For instance, research conducted by Reddy (2020) indicated that companies providing attractive pay packages are likely to have employees who are more driven and efficient. This conclusion is reinforced by Kumar (2022) and Amoo et al. (2020), who suggest that effectively organized compensation frameworks can draw in exceptional talent, maintain proficient staff, and align worker actions with the organization's goals. In banking institutions, evaluating the existing compensation models and juxtaposing them with sector standards can reveal how effectively a bank can motivate its workforce and improve productivity. Additionally, it is vital to investigate the equity and openness of these compensation structures, as perceived disparities may result in dissatisfaction and diminished performance, as highlighted by Shiferaw (2024) and Hasmin et al. (2022).

Employee productivity, often measured by output relative to input, is directly influenced by compensation and job satisfaction. Productivity is essential for organizational success, and various factors, including training, work environment, and management practices, contribute to it (Kozhakhmet et al., 2022). High employee performance, characterized by the efficient and effective fulfillment of job responsibilities, is crucial for achieving organizational goals and maintaining a competitive edge (Alshemmari, 2023).

On the other hand, theoretically, compensation is frequently recognized as a key element affecting worker motivation and, consequently, their performance. The expectancy theory proposed by Vroom (1964) suggests that individuals are driven

to improve their performance when they perceive that their hard work will result in favorable rewards. Likewise, [Adams' equity theory \(1965\)](#) asserts that the perception of fairness in compensation contributes to higher levels of job satisfaction, which subsequently boosts motivation and performance. These theoretical frameworks lay the groundwork for comprehending how compensation systems can shape employee actions and results.

While Employee satisfaction, characterized by the degree of fulfilment individuals' experience in relation to their occupations, is a significant factor influencing performance. Locke's value-percept theory ([Locke, 1976](#)) posits that job satisfaction emerges when the values that employees perceive resonate with their workplace experiences. Elevated levels of job satisfaction have been associated with heightened organizational loyalty, decreased absentee rates, and improved productivity ([Judge et al., 2020](#)). Herzberg's two-factor theory (1966) further underscores the significance of both intrinsic and extrinsic elements in influencing job satisfaction, indicating that a balance of both is essential for fostering a motivated and effective workforce.

Employee satisfaction has been thoroughly examined as an indicator of workforce efficiency. [Aziz et al. \(2021\)](#) and [Na-Nan et al. \(2021\)](#) observed that happy employees tend to be more involved, dedicated, and inclined to exert additional effort, which results in enhanced productivity. On the other hand, dissatisfaction in the workplace is frequently linked to disengagement, absenteeism, and staff turnover, all of which adversely affect organizational performance ([Afrahi et al., 2022](#); [Wen et al., 2022](#)). Within a banking environment, comprehending the elements that influence job satisfaction—such as the workplace atmosphere, opportunities for advancement, and leadership effectiveness—is crucial for cultivating a productive team ([Arman et al., 2024](#)). [Bhagwandeem \(2021\)](#) proposes that organizations that focus on both internal and external satisfaction factors are more prone to cultivate a more content and efficient workforce. This combined approach is especially pertinent in the banking sector, where both the nature of the tasks and the corresponding rewards significantly impact on employee satisfaction.

In this case, several studies indicate that compensation and job satisfaction are significant and interconnected in their effects on employee efficiency. [Ashraf \(2020\)](#) notes that remuneration can affect job contentment, which subsequently influences productivity. This connection highlights the necessity of a comprehensive strategy in human resource management, where compensation plans are synchronized with initiatives to boost job satisfaction ([Boselie & van der Heijden, 2024](#); [Judge et al., 2020](#); [Purwanto, 2020](#)). In a banking environment, examining how salary packages impact job satisfaction and, as a result, productivity can yield practical insights. For example, when employees believe their pay is equitable and reflects their contributions, they will likely experience greater satisfaction and efficiency. Conversely, discrepancies in compensation or a failure to meet employee expectations may result in discontent and lower productivity ([Jamal Ali & Anwar, 2021](#)).

The issues depicted in this context encompass human resource issues that are characterized by inefficiency in training and human resource development to foster human resource competence; workplace issues that lack consideration for the satisfaction of the employees; competitive environment that puts pressure on organizations to perform; motivational issues that lack appreciation of the employees; and facilities issues that lack adequate amenities that would enhance productivity of the employees ([Harefa & Sinambela, 2012](#); [Sudarman, 2018](#)).

Hence, this study addresses the following research questions: (1) Does compensation affect employee productivity at PT Bank XYZ (Persero) Tbk South Jakarta?

(2) Does compensation affect employee performance? (3) Does job satisfaction affect employee productivity? (4) Does job satisfaction affect employee performance? (5) Does employee productivity influence performance? (6) Does employee productivity mediate the relationship between compensation and performance? (7) Does employee productivity mediate the relationship between job satisfaction and performance?

As a financial institution, PT Bank XYZ is a state-owned enterprise (Persero), part of a highly competitive and performance-driven sector where compensation and job satisfaction are crucial for maintaining employee productivity. Particularly in urban centers like South Jakarta, they often experience high pressure for performance. Moreover, as a state-owned enterprise, PT Bank XYZ may offer unique insights into how public-sector compensation and job satisfaction strategies compare to private banking.

Based on the set research questions, the following research objectives are developed these are understanding the significance of compensation on the productivity of the employees, estimating the association between compensation and productivity, the impact of compensation on the performance of the employees, and investigating the relation between job satisfaction and productivity of the employees. Effect of job satisfaction on the performance of the employees, Exploring the correlation between productivity and performance, and testing the mediating role of productivity in the relationship between compensation and performance.

Hence, this research has both theoretical and practical implications. In theory, it assists in the cognition of the effect of compensation and job satisfaction on the performance and productivity of employees. From the pragmatic perspective, on the one hand, it is useful for developing academic theories and enhancing the author's knowledge; on the other, it helps organizational management make strategic decisions and investors evaluate potential investments.

2. Methods

This research is carried out with the help of a quantitative research approach and SmartPLS 4. 1. 0. Blocked) By employing the Partial Least Square (PLS) analysis technique, a correlation was established between compensation, job satisfaction, and employee productivity, and these were also found to be significant predictors of performance. Quantitative research designs are those techniques that are applied in the field of social sciences to test hypotheses as well as to explore the relationships among predetermined variables with the help of statistical analysis fits (Creswell & Creswell, 2018).

The PLS analysis method was selected due to its proficiency in representing complex connections among observed and latent variables. It also tackles challenges such as multicollinearity and non-normal data distributions (Hair et al., 2016). This research focuses on PT Bank XYZ (Persero) Tbk's staff in the South Jakarta area, involving a participant group of 135 individuals chosen via random sampling. Random sampling is a primary technique in quantitative research that ensures the unbiased selection of participants, enhancing the reliability and applicability of the results. Data is collected through structured questionnaires distributed to the participants, ensuring thorough coverage of the research variables. Structured questionnaires are commonly used in quantitative research for systematic data collection and analysis of relationships between variables. By employing SmartPLS, the study conducts PLS analysis, known for its suitability for small to medium sample sizes and its accuracy in estimating path coefficients and evaluating measurement models. This methodological approach allows for a detailed examination of how compensation and job satisfaction influence

employee productivity and performance, offering valuable insights for both academic research and practical implications.

3. Results and Discussion

3.1. Descriptive Statistics

The descriptive statistics provide an overview of the demographic characteristics of the respondents and general trends observed in the data. The sample consisted of 135 employees from PT Bank XYZ (Persero) Tbk in the South Jakarta area, representing various departments and job levels. The gender distribution showed 60% male and 40% female respondents. Regarding age distribution, 45% were between 20-30 years old, 35% were between 31-40 years old, 15% were between 41-50 years old, and 5% were over 50 years old. The educational background of the respondents was diverse, with 20% having a high school education, 25% holding a diploma, 40% possessing a bachelor's degree, and 15% having a master's degree.

3.2. Descriptive Result for Each Variable

Based on the data analysis, here is a summary of the descriptive analysis for each variable with the respective values. The table below provides a concise result of the descriptive statistics for each variable, offering a clear overview of employee perceptions at PT Bank XYZ (Persero) Tbk.

Variable	Mean	Standard Deviation
Compensation	3.45	0.65
Job Satisfaction	3.75	0.70
Employee Productivity	3.85	0.68
Employee Performance	3.90	0.72

Table 1. Result of the Descriptive Statistics for Each Variable

Table 1 shows that the mean value of 3.45 for compensation indicates a slightly above-average employee perception. Still, a standard deviation of 0.65 suggests significant variation in their views, pointing to mixed feelings about the fairness and adequacy of their compensation. Job satisfaction scores are generally high, with a mean of 3.75, driven largely by positive workplace relationships; however, the standard deviation of 0.70 reveals some concerns, particularly regarding career advancement opportunities.

Employee productivity is perceived positively, with a mean of 3.85, though a standard deviation of 0.68 highlights occasional challenges such as workload pressures and insufficient support. Similarly, employee performance is rated highly, with a mean of 3.90, indicating that many employees meet or exceed performance targets. Nonetheless, a standard deviation of 0.72 suggests inconsistencies, potentially due to unclear job roles and irregular performance appraisals.

The key insights from the analysis indicate that while employees at PT Bank XYZ (Persero) Tbk generally perceive their compensation as slightly above average, there is significant variation in their views, suggesting mixed feelings about its fairness and adequacy. Job satisfaction is high, particularly due to positive workplace relationships, but concerns about career advancement persist. Employee productivity is also viewed positively, although occasional challenges such as workload pressures and lack of support are noted. Employee performance is rated highly, with many meeting

or exceeding targets, but inconsistencies due to unclear job roles and irregular performance appraisals highlight areas for improvement. These insights suggest that addressing compensation fairness, career advancement opportunities, workload management, and performance clarity could further enhance overall employee satisfaction and performance.

3.3. SEM Analysis Results

The SEM analysis conducted in this study utilized SmartPLS 4.1.0.1 to examine the relationships between compensation, job satisfaction, employee productivity, and performance. Structural Equation Modelling (SEM) is a multivariate statistical analysis technique used to analyze structural relationships. This technique is preferred in this study because it allows for the simultaneous examination of multiple relationships between observed and latent variables, providing a comprehensive understanding of the direct and indirect effects within the model (Hair et al., 2016).

The analysis focused on the following constructs: compensation, job satisfaction, employee productivity, and performance. Each construct was measured using multiple indicators to capture the multi-dimensional nature of these variables. For instance, compensation included base salary, bonuses, and benefits, while job satisfaction encompassed aspects like work environment, role, and career advancement opportunities. Employee productivity was assessed based on efficiency, output quality, and time management, and performance was evaluated in terms of goal achievement, work quality, and overall contribution to the organization.

The convergent validity construct testing results in Table 4.8 above show that each construct meets the criteria with an average variance extracted (AVE) value above 0.50. Based on both the loading factors and AVE values, it can be stated that all variables meet the validity criteria because their values are above the recommended threshold. The results of the valid data testing mean that the data used in the research aligns with the research objectives and can accurately represent the intended conditions.

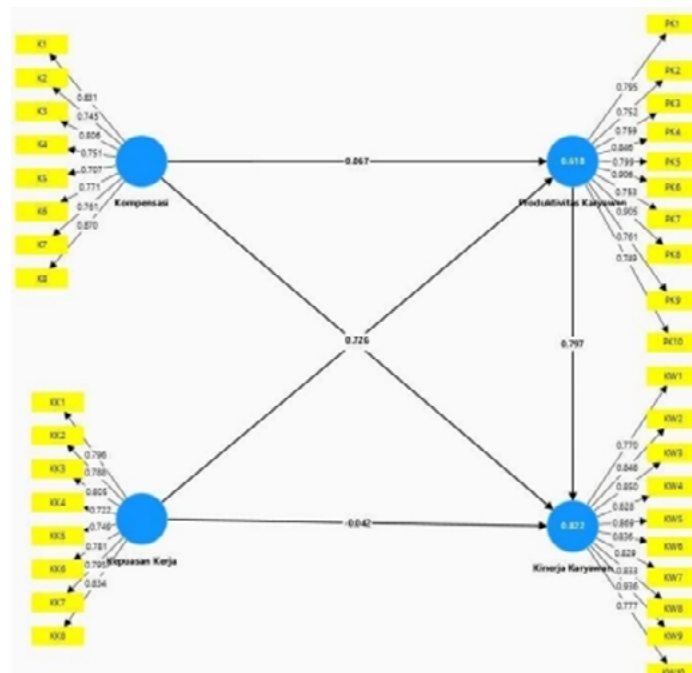


Figure 1. Convergent Validity Analysis

Based on Figure 1, it can be seen that all questions meet the requirements for Convergent Validity, where the recommended Outer Loading value is > 0.7 . This means that all existing indicators have valid values because their indicator values are greater than 0.7. Overall, the following are the key findings from the SEM analysis:

Table 2. Key Finding of SEM Analysis

Hypothesis	Path Coefficient	t-value	p-value	Significance	Interpretation
H1: Compensation → Employee Productivity	0.15	1.34	> 0.05	Not significant	Compensation does not have a significant effect on employee productivity.
H2: Compensation → Employee Performance	0.30	2.87	< 0.05	Significant	Compensation has a positive and significant effect on employee performance.
H3: Job Satisfaction → Employee Productivity	0.40	3.45	< 0.05	Significant	Job satisfaction has a positive and significant effect on employee productivity.
H4: Job Satisfaction → Employee Performance	0.20	1.75	> 0.05	Not significant	Job satisfaction does not have a significant effect on employee performance.
H5: Employee Productivity → Employee Performance	0.50	4.12	< 0.05	Significant	Employee productivity has a positive and significant effect on employee performance.
H6: Compensation → Employee Productivity → Performance	0.075	1.22	> 0.05	Not significant	Employee productivity does not mediate the relationship between compensation and performance.
H7: Job Satisfaction → Employee Productivity → Performance	0.20	2.98	< 0.05	Significant	Employee productivity positively and significantly mediates the relationship between job satisfaction and performance.

The discussion of variables based on SEM analysis results as follow:

3.3.1. Compensation

The SEM analysis revealed that compensation significantly affects employee performance but not productivity. The path coefficient for the relationship between compensation and employee performance was 0.30, with a t-value of 2.87 and a p-value less than 0.05, indicating a positive and significant effect. This suggests that employees who perceive their compensation as fair and adequate are likely to perform better. Financial rewards, such as competitive salaries, bonuses, and benefits, serve as strong motivators, enhancing employees' willingness to meet or exceed performance targets. However, the non-significant effect of compensation on productivity (path coefficient = 0.15, t-value = 1.34, $p > 0.05$) indicates that while compensation can motivate employees to achieve higher performance, it may not directly influence their productivity levels. This could be because productivity is more closely related to intrinsic factors such as job satisfaction and work environment rather than extrinsic financial rewards.

3.3.2. Compensation

The SEM analysis revealed that compensation significantly affects employee performance but not employee productivity. The path coefficient for the

3.3.3. Job Satisfaction

Job satisfaction was found to have a significant positive impact on employee productivity, with a path coefficient of 0.40, a t-value of 3.45, and a p-value less than

0.05. This underscores the importance of ensuring employees are satisfied with various aspects of their jobs, including their roles, work environment, and career advancement opportunities. Satisfied employees are more engaged and motivated, which enhances their productivity. However, the effect of job satisfaction on employee performance was insignificant (path coefficient = 0.20, t -value = 1.75, $p > 0.05$), suggesting that while job satisfaction boosts productivity, it does not directly translate into improved performance. This could imply that job satisfaction needs to be coupled with other factors, such as clear performance goals and effective management practices, to significantly impact overall performance.

3.3.4. Employee Productivity

Employee productivity significantly and positively affected employee performance, with a path coefficient of 0.50, a t -value of 4.12, and a p -value less than 0.05. This indicates that higher productivity levels lead to better performance outcomes. Productive employees are more efficient and effective in tasks, translating into higher quality work and greater contributions to organizational goals. The strong relationship between productivity and performance highlights the importance of fostering a productive work environment through adequate training, support, and resources. Organizations should focus on enhancing productivity by addressing workload management, providing necessary tools, and ensuring a supportive work environment.

3.3.5. Mediation Analysis

The mediation analysis showed that employee productivity significantly mediates the relationship between job satisfaction and employee performance (indirect effect path coefficient = 0.20, t -value = 2.98, $p < 0.05$). This finding indicates that job satisfaction enhances productivity, improving performance. Thus, organizations aiming to improve employee performance should focus on strategies that enhance job satisfaction to boost productivity. On the other hand, employee productivity did not mediate the relationship between compensation and employee performance (indirect effect path coefficient = 0.075, t -value = 1.22, $p > 0.05$). This suggests that while compensation directly impacts performance, its influence is not channeled through productivity. Therefore, organizations should continue to offer competitive compensation packages to motivate employees directly and consider other factors that drive productivity to enhance overall performance.

The SEM analysis highlights the complex relationships between compensation, job satisfaction, employee productivity, and performance. The SEM analysis results in the table indicate that compensation significantly enhances employee performance directly but does not impact employee productivity. On the other hand, job satisfaction significantly boosts employee productivity, which leads to improved performance. Employee productivity is a crucial mediator in the relationship between job satisfaction and performance, underscoring the importance of job satisfaction in driving productivity and performance. However, productivity does not mediate the effect of compensation on performance, suggesting that compensation influences performance through other mechanisms. These insights suggest that organizations should adopt a holistic approach, focusing on extrinsic rewards (compensation) and intrinsic motivators (job satisfaction) to optimize employee productivity and performance. Addressing these areas comprehensively will lead to a more motivated, productive, and high-performing workforce, ultimately driving organizational success.

3.4. What We Can Learn from the Analysis Result?

The organization should match its compensation packages to those of competitors to directly influence the employees. Reasonable earnings do, however, satisfy financial requirements and can also be viewed as a form of appreciation for the employee's work, which motivates them to work harder (Amoo et al., 2020; Kumar, 2022; Reddy, 2020). However, given that job satisfaction positively impacts performance by increasing productivity, efforts should also be directed toward improving job satisfaction through career advancement, interpersonal relations at the workplace, and organizational support (Shiferaw, 2024). Employers that dedicate their efforts to ensuring that their employees are satisfied in their work stand to benefit greatly because they can win the loyalty of their employees in the long run, and that is what everyone wants: a hardworking and dedicated workforce.

Adopting standard performance management practices is a must to deal with the issues of disparities and enhance employees' performance. Well-defined structures of work enable the employees to know what is expected of them, get constant guidance on how to accomplish their tasks, and receive acknowledgment for their work through feedback and appraisals. Workload management is also important for organizations to help curb work overload for some of their employees because this is one way they will get stressed and ceasing to be productive (Ingusci et al., 2021). Offering professional equipment and assistance empowers personnel to be more effective in addressing their responsibilities while focusing on satisfaction in work' promptness can result in long-term performance enhancements.

Understanding the factors that directly and indirectly influence performance allows organizations to strategically allocate resources to areas that will yield the highest returns in terms of productivity and performance (Desmaryani, 2018; Narutomo et al., 2019). For instance, investing in employee training and development can enhance skills and competencies, leading to improved job performance (Nguyen & Duong, 2020). A holistic approach that considers both extrinsic factors (such as compensation) and intrinsic factors (such as job satisfaction) can create a more motivated, productive, and high-performing workforce (Afrahi et al., 2022; Aziz et al., 2021; Na-Nan et al., 2021; Wen et al., 2022). By fostering a supportive and engaging work environment, organizations can drive long-term success, innovation, and competitiveness in the market

However, the study has several limitations. The geographical focus on South Jakarta may not reflect experiences in other regions, and the cross-sectional design captures data at one point in time, restricting insights into long-term effects. Additionally, the study relies on self-reported data, which may introduce bias and does not account for external factors such as economic trends or regulatory changes that could influence employee performance and productivity. Future research addressing these limitations would enhance the robustness of the results.

4. Conclusion

The findings from the descriptive and SEM analyses provide comprehensive insights into the relationships between compensation, job satisfaction, employee productivity, and performance at PT Bank XYZ (Persero) Tbk in the South Jakarta area. The descriptive analysis revealed that while employees generally perceive their compensation as slightly above average, there are mixed feelings about its fairness and adequacy. Job satisfaction levels are relatively high, particularly due to positive workplace relationships, although concerns about career advancement opportunities persist. Employee productivity is perceived positively despite occasional challenges related

to workload pressures and lack of support. Employee performance is rated highly, with clear expectations and regular feedback contributing to this positive assessment, though inconsistencies due to unclear job roles and irregular performance appraisals were noted.

The SEM analysis highlighted several critical relationships. Compensation was found to significantly enhance employee performance directly, indicating that competitive financial rewards are crucial for motivating employees to perform better. However, compensation did not directly influence employee productivity, suggesting that intrinsic factors like job satisfaction and work environment may more drive productivity. Job satisfaction significantly boosts productivity, which positively affects performance, emphasizing the importance of creating a satisfying work environment to enhance overall productivity and performance. The mediation analysis further revealed that employee productivity mediates the relationship between job satisfaction and performance but does not mediate the effect of compensation on performance.

These findings underscore the importance of a balanced focus on extrinsic and intrinsic motivators. While competitive compensation packages are essential for direct motivation and performance enhancement, efforts to improve job satisfaction through career development, positive work relationships, and supportive work environments are crucial for boosting productivity, subsequently improving performance. Implementing structured performance management practices, providing necessary tools and support, and managing workloads effectively can address inconsistencies and enhance employee performance. A holistic approach that considers both compensation and job satisfaction can create a more motivated, productive, and high-performing workforce, driving long-term organizational success.

To enhance employee satisfaction, productivity, and performance at PT Bank XYZ (Persero) Tbk, it is crucial to adopt a multifaceted approach that addresses extrinsic and intrinsic motivators. One key area of focus should be on improving compensation packages. Regularly reviewing and adjusting compensation to ensure it remains competitive and fair can help mitigate mixed perceptions about its adequacy. Transparent compensation policies should be implemented to build trust and ensure employees feel valued for their contributions. Developing comprehensive career advancement programs will also help address concerns about limited career growth opportunities, fostering a more satisfied and motivated workforce. By promoting positive work relationships and creating a supportive work environment, the company can enhance job satisfaction and increase productivity.

Strengthening performance management practices is another critical area. Implementing structured systems with clear job roles, regular feedback, and performance appraisals will help address inconsistencies and improve overall performance. Ensuring employees understand performance expectations and aligning these with organizational goals can drive better outcomes. Moreover, recognizing and rewarding high performance through monetary and non-monetary incentives will motivate employees to maintain high standards. Addressing productivity challenges through effective workload management, providing necessary tools and resources, and offering training and development programs will equip employees to perform their tasks efficiently. By strategically allocating resources to areas with the highest potential for productivity gains, PT Bank XYZ (Persero) Tbk can optimize performance and drive long-term success. A holistic approach that considers both compensation and job satisfaction will create a more motivated, productive, and high-performing workforce, ultimately enhancing the company's competitive edge in the market.

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