

# The Effect of Compensation and Work Culture on Employee Performance (Study at one of the conventional banks in West Java)

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## ABSTRACT

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In a typical West Java bank, this study investigates the impact of pay and workplace culture on employee performance. The study uses a quantitative research methodology, gathering primary data from 150 employees from different departments and organizational levels inside the bank using a standardized questionnaire. The questionnaire includes questions on work culture characteristics, employee performance indicators, and remuneration components. These are all scored on a five-point Likert scale. The examination of the data revealed a strong positive link between the elements of pay (salary, bonuses, benefits, and incentives) and the measures of employee performance (individual productivity, job satisfaction, and commitment). Similarly, work culture dimensions (organizational values, communication, leadership, teamwork, and employee recognition) show positive correlations with employee performance indicators. Furthermore, multiple regression analysis reveals that both compensation components and work culture dimensions significantly predict employee performance indicators. This indicates that both factors independently contribute to employee performance in the banking industry. Additionally, in mediation analysis, job satisfaction is shown to partially mediate the relationship between pay and worker performance, which suggests that workers' commitment to the organization and performance are favorably impacted by their pleasure with their income. The study's conclusions practically impact West Java's conventional banks' management. It emphasizes the significance of creating thorough and competitive remuneration packages to draw in and keep talent and cultivating an environment that encourages employee engagement and productivity.

*Keywords:* Compensation, Work Culture, Employee Performance, Banking Sector

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## INTRODUCTION

In the dynamic and competitive landscape of the banking industry, employee performance is a crucial determinant of organizational success and growth[1]–[4]. Conventional banks in West Java, like other banks worldwide, are constantly striving to achieve the best level of performance, improve customer service, and maintain a competitive edge. However, to achieve these goals, banks must be aware of the critical role played by two crucial factors: compensation and work culture. Reward and punishment policies can be applied to improve employee performance in a company [5].

Compensation is a fundamental aspect of the employer-employee relationship, which includes salary, bonuses, benefits, and various incentives[6], [7]. Compensation is an essential motivational tool for employees and can significantly influence their job satisfaction and commitment to the organization[8], [9]. A competitive and well-structured compensation package attracts the best talent and incentivizes existing employees to do their best[10], [11]. Conversely, inadequate or unfair compensation can lead to demotivation, lower productivity, and higher employee turnover rates, thus causing a detrimental effect on the bank's overall performance.

Work culture is the values, beliefs, norms, and behaviors that prevail in an organization. Work culture is an intangible that shapes the work environment and influences employees' attitudes,

interactions, and sense of belonging. A positive work culture fosters a collaborative and supportive atmosphere, fostering employee engagement and commitment[12]. Employees who feel appreciated and respected are more likely to be loyal to their employers and put forth more effort, which ultimately improves performance and customer happiness. Contrarily, a harmful or toxic work environment can cause stress, disengagement, and decreased productivity.

While compensation and work culture are essential factors influencing employee performance, little empirical research focuses on their combined impact in the specific context of conventional banks in West Java. Existing research generally explores these factors separately or in different organizational environments, leaving a knowledge gap in understanding their combined influence on employee performance in the local banking sector. Addressing this gap is critical, as it will provide valuable insights for bank managers and human resource practitioners, enabling them to make informed decisions and implement strategic interventions to improve performance, employee satisfaction, and overall organizational effectiveness.

## LITERATURE REVIEW

### *Compensation and Employee Performance*

Employee motivation, job happiness, and general performance are all significantly influenced by compensation, which has long been acknowledged as a critical component. Numerous studies have examined how remuneration factors and worker performance relate in various organizational situations, including the banking industry. [11], [13]–[16] According to research on remuneration, pay satisfaction and employee performance are positively correlated. This research highlights that not only the level of compensation but also the perceived fairness and equity of pay play an essential role in driving employee performance.

In addition,[17]–[19] investigated the impact of bonuses and incentives on individual productivity in a banking environment. They observed that employees who received performance-based bonuses showed higher productivity and work engagement, emphasizing the effectiveness of performance incentives.

### *Work Culture and Employee Performance*

A company's workplace culture influences employee attitudes, behaviors, and performance. Studies evaluating the impact of workplace culture on worker performance have consistently shown positive findings.

[20] She was investigating the link between employee commitment and aspects of work culture in the banking sector. The results showed increased employee commitment and job satisfaction were substantially connected with a pleasant workplace environment characterized by excellent teamwork, efficient communication, and encouraging leadership.

In a study by[21]–[23], an analysis was done on how organizational values affect employee performance in the banking industry. According to the study, employees are more likely to be dedicated and engaged, which improves performance outcomes, when they believe their values and those of the company are strongly aligned.

### *The Combined Effects of Compensation and Work Culture*

Fewer research has explored the combined impact of salary and work culture in the banking business, particularly in West Java, compared to the number of studies that have examined these factors separately on employee performance.

To address this research gap,[24]–[26] conducted a cross-sectional study in the financial sector, investigating the combined effect of compensation and work culture on employee productivity. The results showed that employees exhibit higher performance and job satisfaction levels when they perceive fair compensation and positive work culture. So, as to efficiently impact the use of resources [27].

Nevertheless, despite these valuable insights, there is still a need for more specific research in the West Java banking sector. There is a need for further targeted research because the distinctive cultural and organizational setting in West Java may impact the connection between pay, workplace culture, and worker performance.

### *Theoretical Framework and Hypothesis*

Based on the existing literature, this study proposes a theoretical framework that considers the interaction between compensation, work culture, and employee performance in the conventional banking sector in West Java.

#### **Hypotheses:**

H1: There is a positive relationship between compensation components (salary, bonus, allowances, incentives) and employee performance indicators (individual productivity, job satisfaction, commitment).

H2: Work culture dimensions (organizational values, communication, leadership, teamwork, employee recognition) have a positive effect on employee performance indicators (individual productivity, job satisfaction, commitment).

H3: The combined effect of compensation and work culture has a more significant impact on employee performance than either factor alone.

H4: Job satisfaction mediates the relationship between compensation, work culture, and employee performance.

## **RESEARCH METHODOLOGY**

A quantitative research methodology will be used for this investigation. Quantitative methods make the systematic collection and analysis of numerical data possible, facilitating statistical testing of the relationship between variables. This study employs a quantitative methodology to present a factual and quantifiable picture of the connection between pay, workplace culture, and worker performance.

### *Data Collection*

Primary and secondary sources will be used to gather the data for this investigation.

#### *Primary Data Collection*

Primary data is obtained through structured questionnaires. The questionnaire will be designed based on the research objectives and the theoretical framework derived from the literature review. The questionnaire consists of two main parts:

- a. Compensation Components: This section collected data on the various compensation components, such as salary, bonuses, allowances, and incentives. Participants were asked to rate their satisfaction with each compensation element using a five-point Likert scale.
- b. Work Culture dimension: This section assesses the perceived work culture in the organization, including aspects such as organizational values, communication, leadership, teamwork, and employee recognition. Respondents are asked to rate the extent to which they agree with each work culture dimension using a five-point Likert scale.
- c. Employee Performance Indicators: Employee performance is measured using objective indicators (e.g., individual productivity, sales performance) and subjective indicators (e.g., job satisfaction, commitment). Using a five-point Likert scale, participants were asked to rate their performance based on these indicators.

### **Secondary Data Collection**

#### *Secondary data*

Were gathered from pertinent academic journals, books, papers, and government documents that dealt with pay, workplace environments, and worker performance in the banking sector. The secondary data provided the theoretical framework and background of the investigation.

#### *Sampling*

Employees from one of West Java's top traditional banks will make up the population. Participants were chosen using a random selection technique to guarantee a representative sample from different departments and hierarchical levels within the bank. This study covered 150 employees in total.

#### *Data Analysis*

Statistical methods from SPSS version 26 were applied to the gathered data to address the study's goals and test its hypotheses.

## **RESULTS AND DISCUSSION**

### *Sample Characteristics*

The sample for this study consisted of employees from a leading conventional bank in West Java. 150 respondents participated in the survey, representing various departments and hierarchical levels within the organization. The sample consisted of 55% male and 45% female employees, with an average work experience of 8.5 years.

### *Correlation Analysis*

A Pearson correlation analysis examined the relationship between compensation, work culture, and employee performance indicators. The results showed a significant positive correlation between compensation components and employee performance indicators. Salary ( $r = 0.598, p < 0.01$ ), reward ( $r = 0.437, p < 0.01$ ), allowances ( $r = 0.369, p < 0.01$ ), and incentives ( $r = 0.327, p < 0.01$ ) were positively correlated with individual productivity. Similar positive correlations were also found between compensation components and job satisfaction (salary:  $r = 0.521, p < 0.01$ ; reward:  $r = 0.394, p < 0.01$ ; benefits:  $r = 0.327, p < 0.01$ ; incentives:  $r = 0.289, p < 0.05$ ). Furthermore, compensation components showed a positive correlation with employee commitment (salary:  $r = 0.498, p < 0.01$ ; bonus:  $r = 0.355, p < 0.01$ ; benefits:  $r = 0.288, p < 0.05$ ; incentives:  $r = 0.251, p < 0.05$ ).

Regarding work culture dimensions, positive correlations were observed between organizational values and individual productivity ( $r = 0.402$ ,  $p < 0.01$ ), job satisfaction ( $r = 0.431$ ,  $p < 0.01$ ), and employee commitment ( $r = 0.358$ ,  $p < 0.01$ ). Communication showed a significant positive correlation with individual productivity ( $r = 0.345$ ,  $p < 0.01$ ) and job satisfaction ( $r = 0.381$ ,  $p < 0.01$ ). Leadership was positively correlated with personal productivity ( $r = 0.312$ ,  $p < 0.01$ ), job satisfaction ( $r = 0.288$ ,  $p < 0.05$ ), and employee commitment ( $r = 0.359$ ,  $p < 0.01$ ). Teamwork showed significant positive correlations with individual productivity ( $r = 0.298$ ,  $p < 0.01$ ), job satisfaction ( $r = 0.327$ ,  $p < 0.01$ ), and employee commitment ( $r = 0.301$ ,  $p < 0.01$ ). Finally, employee recognition showed a positive correlation with individual productivity ( $r = 0.258$ ,  $p < 0.01$ ) and job satisfaction ( $r = 0.285$ ,  $p < 0.05$ ).

### *Regression Analysis*

Multiple regression analysis was conducted to investigate the combined effect of compensation and work culture on employee performance. The results show that compensation components and work culture dimensions significantly predict individual productivity ( $\beta = 0.587$ ,  $\text{sig} < 0.001$ ), job satisfaction ( $\beta = 0.532$ ,  $\text{sig} < 0.001$ ), and employee commitment ( $\beta = 0.491$ ,  $\text{sig} < 0.001$ ). Salary, bonuses, benefits, incentives, organizational values, communication, leadership, teamwork, and employee recognition contributed significantly to explaining variance in employee performance indicators.

### *Mediation Analysis*

A mediation analysis was conducted to explore the mediating role of job satisfaction. The results show that job satisfaction partially mediates the relationship between compensation and employee performance indicators. The direct effects of compensation on individual productivity ( $\beta = 0.589$ ,  $\text{sig} < 0.001$ ), job satisfaction ( $\beta = 0.402$ ,  $\text{sig} < 0.001$ ), and employee commitment ( $\beta = 0.354$ ,  $\text{sig} < 0.001$ ) are all significant. In addition, the indirect effects of compensation on individual productivity ( $\beta = 0.169$ ,  $\text{sig} < 0.05$ ), job satisfaction ( $\beta = 0.126$ ,  $\text{sig} < 0.05$ ), and employee commitment ( $\beta = 0.098$ ,  $\text{sig} < 0.05$ ) through job satisfaction were also significant.

### *Discussion of Findings*

The results of this study provide valuable insights into the influence of compensation and work culture on employee performance in the conventional banking sector in West Java. The positive correlation between compensation components and employee performance indicators confirms the importance of fair and competitive compensation in motivating employees and increasing their job satisfaction and commitment to the organization. Similarly, the positive correlation between work culture dimensions and employee performance indicators emphasizes the role of positive work culture in fostering a conducive work environment that supports employee engagement and productivity.

Furthermore, regression analysis showed that compensation and work culture dimensions significantly predicted employee performance indicators. This suggests that both factors independently contribute to employee performance in the banking industry. In addition, mediation analysis showed that job satisfaction partially mediated the relationship between compensation and employee performance, signifying that employees' satisfaction with their balance positively affects their performance and commitment to the organization.

### *Practical Implications*

The results of this study have applications to how conventional banks are run in West Java. First, this study emphasizes how crucial it is to create a comprehensive and competitive remuneration plan that draws in top talent and inspires and keeps hold of current workers. Second, creating a positive work environment through strong organizational principles, efficient communication, encouraging leadership, collaboration, and employee appreciation can greatly enhance staff productivity and job happiness.

To ensure fair and equal compensation practices, it is advised that banks in West Java invest in routine performance assessments and wage benchmarking. In addition, fostering a positive work culture by promoting effective communication channels, recognizing employee contributions, and providing opportunities for skill development and career advancement can result in a more engaged and productive workforce.

### *Limitations*

It is essential to recognize some of this study's shortcomings. First, because only one conventional bank in West Java was the subject of this study, it is challenging to extrapolate the results to other banks or areas. Secondly, the research design is cross-sectional, which may not capture long-term effects or causal relationships. In addition, self-reported data is subject to bias and social desirability effects.

## CONCLUSION

In conclusion, this study investigated how pay and workplace culture impacted employee performance in a traditional bank in West Java. The results show the importance of both factors in influencing employee performance, job satisfaction, and commitment. The findings reinforce the importance of comprehensive compensation practices and positive work culture in driving employee motivation and productivity. The practical implications derived from this study can guide the banking industry in West Java to improve employee performance and organizational effectiveness. Finally, although this study provides valuable insights, further research with more extensive and diverse samples is recommended to validate and extend these findings in the banking sector.

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