

The Impact of Compensation on Employee Performance with Organizational Culture as a Mediating

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ABSTRACT

This study examines the effect of compensation on employee performance, with organizational culture serving as a mediating variable. Conducted within the financial sector, the research adopts a quantitative approach, collecting data through questionnaires distributed to employees. The analysis was carried out using regression techniques and mediation testing. The results indicate that compensation has a significant and positive impact on both organizational culture and employee performance. Additionally, organizational culture plays a key role in improving employee performance. Mediation analysis confirms that organizational culture fully mediates the relationship between compensation and performance, suggesting that compensation is more effective when supported by a strong organizational culture. These findings highlight the importance of not only implementing equitable and competitive compensation strategies but also fostering a solid organizational culture to optimize employee performance. Future research should consider exploring other factors, such as leadership, motivation, and job satisfaction, to provide a more comprehensive understanding of employee performance determinants.

Keywords: *Compensation, Employee Performance, Financial Industry, Mediation, Organizational Culture.*

1. INTRODUCTION

One of an organization's most precious assets is its human resources (HR), particularly in the financial sector, which greatly depends on the caliber of its people to deliver the best possible services to stakeholders and customers. Employee performance is a critical determinant of a company's success in a competitive business climate (Robbins & Judge, 2017). Businesses that successfully manage elements that affect employee motivation and productivity, like pay and organizational culture, can attain high performance.

Compensation encompasses both monetary and non-monetary benefits offered by a company to its employees as a form of appreciation for their efforts in attaining organizational objectives (Milkovich & Newman, 2014). A fair and competitive compensation system can enhance employee motivation and loyalty, which in turn positively impacts their job performance (Hasibuan, 2016). Research conducted by Gerhart & Fang (2014) found that compensation aligned with employee expectations significantly contributes to increased productivity and job satisfaction. In the financial industry, where employees face high work pressure, adequate compensation is essential for maintaining and improving performance.

However, attractive compensation alone is not sufficient to ensure sustainable improvements in employee performance. Additional elements, especially organizational culture, are crucial in influencing individual behavior and overall workplace performance (Schein, 2017). A strong corporate culture can foster a supportive work environment, enhance collaboration among employees, and establish values that support the achievement of corporate objectives (Cameron & Quinn, 2011). A study by Denison et al. (2018) found that a positive corporate culture can increase employee engagement and amplify the impact of compensation on performance.

As an intermediary variable, organizational culture can enhance or diminish the impact of compensation on employee performance. In other words, effective compensation is more likely to enhance performance when supported by a strong and positive corporate culture. Previous research has shown that a strong corporate culture increases the effectiveness of compensation in driving employee performance (O'Reilly et al., 2014; Hartnell et al., 2019). Conversely, a weak corporate culture may diminish the positive effects of compensation.

XYZ Company, which operates in the financial sector, faces challenges in maintaining and improving employee performance amid increasing industry competition. As a service-oriented company, the quality of employee work is a

key factor in customer satisfaction and long-term business sustainability. Therefore, it is crucial to understand how the company's compensation strategy influences employee performance and the role of corporate culture in reinforcing this relationship.

Based on this background, the present study aims to analyze the relationship between compensation and employee performance, with corporate culture acting as a mediating variable within XYZ Company. The findings are expected to provide valuable insights for the company in designing more effective compensation strategies and fostering a corporate culture that supports sustainable improvements in employee performance.

2. RESEARCH METHOD

2.1. Research Variables

This research focuses on three key variables. The independent variable, work compensation (X), represents the rewards provided by the company to employees, which contribute to job satisfaction, motivation, and ultimately influence both organizational culture and employee performance (Hasibuan, 2016). The mediating variable, organizational culture (Z), consists of the values, norms, and work practices that influence employee behavior and drive motivation, thereby strengthening the impact of compensation and training on performance (Schein, 2017). On the other hand, employee performance (Y) is dependent variable, reflects the level of effectiveness and productivity demonstrated by employees in achieving organizational objectives, which is shaped by factors such as compensation, training, and the prevailing organizational culture.

2.1. Conceptual Framework and Hypothesis

The hypotheses developed in this research are as follows:

H1: Compensation significantly influences organizational culture

Hasibuan (2016) states that appropriate compensation enhances employee satisfaction and motivation, which in turn boosts productivity and performance. Employees who believe they receive fair compensation tend to be more dedicated to their work and demonstrate a stronger commitment to accomplishing the organization's objectives.

H2: Compensation significantly impacts employee performance

A fair compensation system is a reflection of an organization's appreciation for its employees, contributing to the establishment of a positive work culture. Gibson et al. (2012) suggest that a fair compensation system creates a workplace atmosphere where employees feel appreciated and motivated to achieve their best performance.

H3: Organizational culture significantly impacts employee performance

A well-developed organizational culture enhances employee performance by strengthening motivation, facilitating communication, and increasing efficiency in task execution (Schein, 2017).

H4: Organizational culture as a mediator between compensation and employee performance

Organizational culture acts as an intermediary that connects compensation with employee performance by fostering a supportive and motivating work environment. A well-structured and equitable compensation system can strengthen organizational culture, ultimately enhancing employee performance (Denison, 1990).

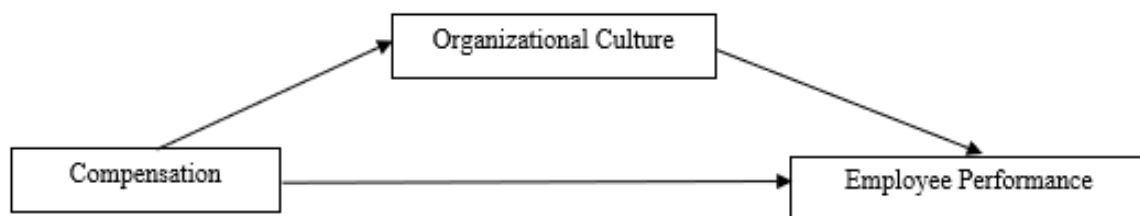


Figure 1 Conceptual Framework

2.2. Data Analysis Method

This research utilizes regression analysis to explore the relationships among variables based on the established hypotheses. The study is conducted using a sample of 58 respondents to evaluate the influence of compensation on both organizational culture and employee performance. Furthermore, the Sobel test is employed to examine the mediating role of organizational culture, determining whether the mediation effect is statistically significant. This assessment

evaluates how the independent variable indirectly influences the dependent variable through the mediating factor, providing a clearer insight into the relationships among the examined variables.

3. RESULT AND DISCUSSION

3.1. Result

3.1.1. Classical Assumption Tests

3.1.1.1. Normality Test

The normality test is conducted to determine whether the data population follows a standard distribution pattern.

Table 1 Result of Normality Test

Unstandardized Residual	Compensation (X) → Organizational Culture (Z)	Compensation (X) → Employee Performance (Y)	Organizational Culture (Z) → Employee Performance (Y)	Compensation (X) + Organizational Culture (Z) → Employee Performance (Y)
Sig.	0.200	0.200	0.169	0.200

According to the results of the Kolmogorov-Smirnov Test, all variables show an Sig. value greater than 0.05. As each significance value surpasses the 0.05 threshold, it can be concluded that the data in this research follows a normal distribution. This verifies that the normality assumption for regression analysis has been met, allowing the application of parametric statistical methods for subsequent analysis.

3.1.1.2. Multicollinearity Test

Test for multicollinearity aims to determine whether independent variables exhibit a high degree of correlation, which can distort regression outcomes.

Table 2 Result of Multicollinearity Test

Variable	VIF
Compensation (X)	1.988
Organizational Culture (Z)	1.988

As all VIF values are less than 10, it indicates that multicollinearity is not present. This ensures that the independent variables do not exhibit a strong correlation, allowing for an accurate and reliable interpretation of the regression model.

3.1.1.3. Heteroscedasticity Test

The heteroscedasticity test assesses whether residual variance remains consistent across the model.

Table 3 Result of Heteroscedasticity Test

Variable	Sig.
Compensation (X)	0.853
Organizational Culture (Z)	0.566

As both significance values exceed 0.05, the model meets the assumption of homoscedasticity, indicating that residual variance is constant, ensuring accurate regression analysis.

3.1.2. Hypothesis Testing

3.1.2.1. H1: Compensation Significantly Influences Organizational Culture

The results in Table 4 demonstrate that compensation significantly impacts organizational culture, with a significance value of 0.000 (< 0.05). This suggests that improved compensation strengthens organizational culture. A regression coefficient of 0.812 suggests that for every one-unit increase in compensation, organizational culture improves by 0.812 units. Consequently, H1 is supported, affirming the positive impact of compensation on organizational culture.

Table 4 t-test Regression Analysis for the Effect of Compensation on Organizational Culture

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	15.460	7.983	1.937	.058
	Compensation	.812	.109	7.438	.000

3.1.2.2. H2: Compensation Significantly Impact Employee Performance**Table 5** t-test Regression Analysis for the Effect of Compensation on Employee Performance

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	42.386	8.374	5.062	.000
	Compensation	.371	.114	3.237	.002

The regression findings demonstrate a significant link between compensation and employee performance, with a significance value of 0.002 (< 0.05). This implies that higher compensation leads to improved employee performance. A regression coefficient of 0.371 suggests that for each unit increase in compensation, employee performance rises by 0.371 units. Consequently, H2 is validated, affirming the positive impact of compensation on employee performance.

3.1.2.3. H3: Organizational Culture has a Significant Impact on Employee Performance**Table 6** t-test Regression Analysis for the Effect of Organizational Culture on Employee Performance

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	49.393	7.674	6.437	.000
	Organizational Culture	.268	.102	2.618	.011

The regression results indicate that organizational culture has a significant effect on employee performance, with a significance value of 0.011 (< 0.05). This suggests that a well-established organizational culture contributes to better employee performance. A regression coefficient of 0.268 implies that for every unit increase in organizational culture, employee performance improves by 0.268 units. Thus, H3 is confirmed, demonstrating the positive influence of organizational culture on employee performance.

3.1.2.3. H4: Organizational culture as a mediator between compensation and employee performance**Table 7** t-test Regression Analysis for the Effect of Compensation and Organizational Culture

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	41.133	8.702	4.727	.000
	Compensation	.305	.162	1.877	.066
	Organizational Culture	.081	.141	.575	.568

A supplementary regression analysis was conducted to examine the mediating influence of organizational culture on the link between compensation and employee performance. The findings reveal that once organizational culture is integrated into the model, the direct impact of compensation on employee performance loses significance, with a p-value of 0.066 (> 0.05). Additionally, organizational culture itself does not exhibit a significant effect on employee performance (Sig. = 0.568, > 0.05). Given that compensation initially had a significant effect but became non-significant upon the inclusion of organizational culture, it can be inferred that organizational culture functions as a full mediator. This suggests that compensation does not directly enhance employee performance but exerts its influence indirectly through organizational culture. As a result, H4 is supported, establishing that organizational culture fully mediates the relationship between compensation and employee performance. To further substantiate this mediation effect, the Sobel test was employed:

$$Z = \frac{(0.812 \times 0.268)}{\sqrt{(0.268^2 \times 0.109^2) + (0.812^2 \times 0.102^2)}} = 2.48 \quad (1)$$

Since the computed Z-value (2.48) exceeds the critical threshold (± 1.96) at a 5% significance level, it confirms that organizational culture significantly mediates the relationship between compensation and employee performance. Therefore, H4 is supported, affirming that organizational culture serves as a full mediator in this relationship.

3.2. Discussion

3.2.1. The Impact of Compensation on Organizational Culture

The analysis findings indicate that compensation has a significant impact on organizational culture, as evidenced by a regression coefficient of 0.812 and a significance value (Sig.) of 0.000 ($p < 0.05$). This supports the premise that well-structured compensation enhances organizational culture. As stated by Robbins & Judge (2017), fair and competitive compensation fosters a positive workplace atmosphere, strengthens employee loyalty, and ensures better alignment between personal and corporate values (Person-Organization Fit Theory, Kristof, 1996). Consequently, this study suggests that an effective compensation system contributes to the reinforcement of organizational culture.

3.2.2. The Impact of Compensation on Employee Performance

The results of the regression analysis indicate that compensation has a significant influence on employee performance, with a regression coefficient of 0.371 and a significance value (Sig.) of 0.002 ($p < 0.05$). Although compensation plays a role in shaping performance, its overall impact is relatively moderate. According to Skinner's Reinforcement Theory (1953), financial rewards can serve as motivation for employees to enhance their performance. However, Self-Determination Theory (Deci & Ryan, 1985) underscores that intrinsic factors, including job satisfaction, recognition, and a supportive work environment, are equally critical in boosting productivity. As a result, while compensation can contribute to performance improvement, organizations should also focus on aspects such as leadership quality, organizational culture, and career advancement opportunities.

3.2.3. The Impact of Organizational Culture on Employee Performance

The regression analysis results show that organizational culture significantly impacts employee performance, with a regression coefficient of 0.268 and a significance value (Sig.) of 0.011 ($p < 0.05$). Although organizational culture does affect performance, its overall contribution is relatively modest. Denison (1990) explains that a strong corporate culture can enhance effectiveness by promoting commitment, fostering a sense of belonging, and creating an environment conducive to productivity. This study proposes that the weak influence of organizational culture on performance may result from its partial adoption by employees or the presence of external determinants, such as compensation frameworks and leadership approaches, which could have a greater impact on shaping work performance.

3.2.4. Mediation Test: The Role of Organizational Culture in the Relationship Between Compensation and Employee Performance

The research findings indicate that organizational culture serves as a mediator between compensation and employee performance. Upon incorporating organizational culture into the regression model, the direct effect of compensation on performance lost its significance (Sig. = 0.066 > 0.05), while organizational culture also did not exhibit a notable direct impact on performance (Sig. = 0.568 > 0.05). However, the Sobel test ($Z = 2.48, > \pm 1.96$) confirms that organizational culture plays a mediating role.

Baron & Kenny (1986) suggest that mediation occurs if (1) compensation significantly affects organizational culture, (2) organizational culture significantly influences performance, and (3) the direct relationship between compensation and performance weakens when the mediator is included. While organizational culture did not show a direct effect in regression analysis, the Sobel test confirms its mediation function.

This finding aligns with Schein's (2010) Organizational Culture Theory, which asserts that compensation enhances cultural values within a company, shaping employee behavior. Organizations with well-established cultures can optimize compensation, not only as financial incentives but also as a tool for employee recognition, ultimately leading to improved performance.

Supporting previous research by Chiang & Birtch (2010) and Denison & Mishra (1995), this study highlights that compensation has a stronger effect on performance when backed by a robust organizational culture, as it cultivates employee commitment and motivation. However, this study also indicates that in transactional work environments, employees may prioritize financial rewards over cultural influences (Kerr & Slocum, 2005). Consequently, while organizational culture acts as a mediator between compensation and performance, its effectiveness is subject to contextual factors.

4. CONCLUSION

This study concludes that a well-structured compensation system positively influences organizational culture by aligning employee values with corporate objectives. Additionally, while compensation significantly enhances employee performance by increasing motivation and recognition, its direct impact remains moderate, implying that other factors also contribute to performance improvement. A strong organizational culture plays a role in boosting productivity, although its influence is relatively limited, emphasizing the need for a supportive work environment and effective communication. Most importantly, organizational culture functions as a full mediator, meaning that compensation enhances employee performance indirectly by reinforcing cultural values, underscoring the essential link between reward systems and employee effectiveness.

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