

Exploring the Role of Employee Engagement in the Link Between Compensation, Work Environment, and Performance: A Systematic Literature Review

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ABSTRACT

Employee performance is a critical factor in organizational success, influenced by various internal and external elements. Compensation and work environment are key determinants shaping employee motivation and productivity. However, the extent to which these factors impact performance may depend on employee engagement as a mediating variable. This study conducts a Systematic Literature Review (SLR) to explore the role of employee engagement in the relationship between compensation, work environment, and employee performance. This review synthesizes existing findings, identifies research gaps, and highlights theoretical and practical implications by analyzing peer-reviewed journal articles published in the last five years. The results indicate that competitive compensation and a conducive work environment significantly enhance employee engagement and performance. Moreover, employee engagement acts as a bridge that strengthens the impact of compensation and work environment on employee performance. This review contributes to the literature on human resource management by comprehensively understanding how organizations can leverage compensation strategies and workplace conditions to foster engagement and drive optimal performance. Future research directions and managerial recommendations are also discussed.

Keywords: *Employee Engagement, Compensation, Work Environment, Employee Performance, Systematic Literature Review (SLR)*

1. INTRODUCTION

Employee performance is a vital element in achieving organizational success. Various internal and external factors, including compensation and work environment, affect this performance. Fair and competitive compensation can increase employee motivation and productivity. Research by Halomoan et al. (2021) shows that compensation significantly affects employee performance by 48.2%. In addition, a conducive work environment also plays an important role in improving employee performance. A study by Samudra et al. (2023) revealed that a good work environment can increase employee motivation, ultimately positively impacting their performance.

Furthermore, employee engagement has become a key factor in improving organizational performance in the increasingly competitive business world. Employees who are emotionally and professionally engaged in their work tend to exhibit higher productivity, better innovation, and greater commitment to the company's goals (Saks, 2022). However, employee engagement levels are heavily influenced by various factors, including compensation systems, work environment, and organizational culture (Albrecht et al., 2021). One of the main factors that determine employee engagement is compensation. Studies show that a fair and competitive compensation system can increase employee motivation and loyalty, ultimately impacting the performance of individuals and organizations (Kwon & Kim, 2020). In addition, compensation includes salary, incentives, benefits, and recognition that can affect job satisfaction and an employee's emotional involvement with work (Demerouti et al., 2021).

In addition to compensation, the work environment plays an important role in shaping employee engagement. A positive work environment, including supportive leadership, a healthy organizational culture, and work flexibility, has improved employee engagement and well-being (Bakker et al., 2022). In today's digital era, the existence of digital platforms in the work environment is also an important element that supports communication, collaboration, and work efficiency to strengthen employee engagement (Hakanen & Schaufeli, 2021). Further, employee engagement is often associated with individual and organizational performance. Employees with a high level of engagement tend to be more committed to achieving company goals, contributing to increased productivity, customer satisfaction, and company

profitability (Shuck et al., 2020). However, academic debate still exists about the mechanisms linking employee engagement to organizational outcomes, particularly concerning compensation and the work environment.

Previous research has separately addressed the relationship between compensation, work environment, and employee engagement. However, studies systematically examining employee involvement as mediators in the relationship between compensation, work environment, and performance are limited. Therefore, this study aims to conduct a Systematic Literature Review (SLR) to explore the role of employee involvement in linking compensation, work environment, and performance based on studies that have been published in recent years. Here are three formulations of issues relevant to the Systematic Literature Review (SLR) research on incentives and workload on employee performance:

RQ1. How does compensation affect employee engagement and employee performance based on the findings of previous studies?

RQ2. What is the role of the work environment in improving employee engagement and employee performance according to the existing literature?

RQ3. How does employee engagement mediate the relationship between compensation, work environment, and employee performance?

Therefore, with the SLR approach, this study is expected to provide a more comprehensive insight into the factors that affect employee engagement and their impact on organizational performance. The results of this study are also expected to provide strategic recommendations for human resource practitioners and managers in developing policies that support optimal employee engagement.

1.1. Employee Engagement in an Organizational Context

Employee engagement is a key factor in the success of modern organizations. Employees with a high level of engagement show greater work motivation, higher productivity, and a stronger commitment to the company's goals (Saks, 2022). According to Kahn (1990), employee engagement reflects the meaningfulness, psychological security, and energy expended in work. The employee engagement model from Schaufeli and Bakker (2004) also links this concept to psychological well-being and organizational performance. Several studies have highlighted factors affecting employee engagement, including leadership, organizational culture, and reward and recognition systems (Bakker et al., 2022). In the digital age, technology platforms are also important in improving communication and work effectiveness, contributing to employee engagement (Hakanen & Schaufeli, 2021).

1.2. The Relationship Between Compensation and Employee Engagement

A fair and competitive compensation system is a key factor affecting employee engagement. According to Herzberg's (1959) motivational theory, compensation can act as a hygiene factor that prevents job dissatisfaction. A study by Kwon and Kim (2020) found that performance-based compensation increases employee engagement and, ultimately, contributes to improved organizational performance. Furthermore, the form of compensation is not only limited to the basic salary but also includes bonuses, incentives, benefits, and non-financial awards such as recognition and work flexibility (Demerouti et al., 2021). With the increasing trend of flexible and hybrid work, compensation based on additional benefits such as work-life balance has become increasingly relevant in increasing employee engagement.

1.3. The Influence of the Work Environment on Employee Engagement

A positive work environment contributes to employee engagement by creating an atmosphere that supports well-being and professional growth. The work environment includes physical (e.g., ergonomic workspace), social (employee-to-employee and leadership relationships), and psychological (organizational support and work culture) factors (Albrecht et al., 2021). The Job Demands-Resources (JD-R) model developed by Demerouti et al. (2001) shows that a work environment with sufficient organizational resources, such as managerial support and flexibility, can increase employee engagement and reduce stress levels. Additionally, an inclusive organizational culture based on transparency and open communication can increase employee loyalty and commitment (Shuck et al., 2020).

1.4. Employee Engagement as a Mediator in the Relationship between Compensation, Work Environment, and Performance.

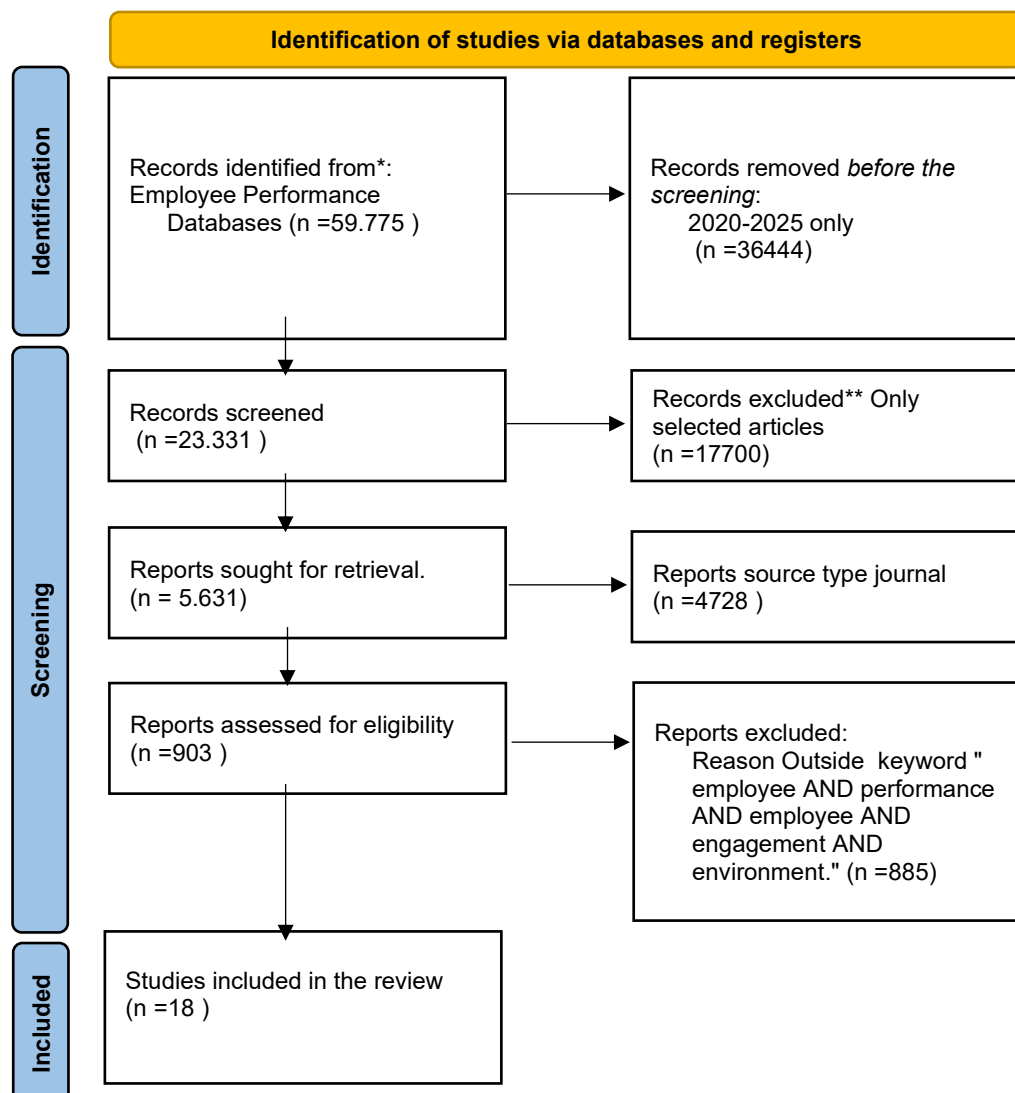
Several studies have shown that employee engagement mediates the relationship between compensation, the work environment, and individual and organizational performance (Bakker et al., 2022). A study by Saks (2022) found that employees who feel valued through a fair compensation system and a supportive work environment have higher

engagement levels, ultimately contributing to increased productivity and job satisfaction. Furthermore, high employee engagement also positively impacts employee retention, where organizations that can retain engaged employees can reduce turnover rates and improve job stability (Hakanen & Schaufeli, 2021). In sustainable business, employee involvement also contributes to business sustainability by creating a more adaptive and innovative workforce in facing organizational challenges (Demerouti et al., 2021).

2. RESEARCH METHODS

This study uses the Systematic Literature Review (SLR) approach to examine the relationship between incentives, workload, and employee performance. The SLR method was chosen because it can identify, evaluate, and synthesize findings from various previous studies in a systematic and structured manner (Kitchenham & Charters, 2007). While searching for literature, this research uses reputable academic databases such as Scopus. Boolean Operators (AND, OR, NOT) techniques are applied in searches to get more specific and relevant results. The literature selection process is carried out in three main stages. First, the initial screening was done by selecting articles based on titles and abstracts. Second, a relevance check is carried out by reading the entire article's content to assess whether it is by the purpose of the research. Third, the data obtained was analyzed and categorized based on the main variables: compensation, work environment, employee engagement and performance.

In analyzing the data, this study applies a thematic analysis approach (Braun & Clarke, 2006) to identify the main patterns and themes that emerge from the literature studied. The extracted data include the identity of the research (author, year, journal source), the research method used (quantitative, qualitative, or mixed-methods), the main findings, and the research context (industry, country, and type of organization). The PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) method is used in reporting the results of the literature selection (Moher et al., 2009). In addition, Critical Appraisal Tools (CASP) are applied to evaluate the validity of the methodology and relevance of the findings of each article reviewed. The studies analyzed were compared to identify patterns, research gaps, and recent trends in the literature.



The PRISMA flowchart above illustrates the literature selection process in the Systematic Literature Review (SLR). Based on the flowchart shown, the process of identifying and filtering studies in this study is carried out through several strict stages. At the Identification stage, as many as 59,726 data were obtained from databases related to employee performance. However, before the screening process was carried out, 38,444 data were deleted because they did not match the specified year range (2020–2025 only). Furthermore, at the Screening stage, of the remaining 23,321 data, 17,700 were excluded because they were included in the category of "not selected articles." After that, 5,631 reports were further selected, but 4,728 were issued because they did not come from journal sources. At the Eligibility Assessment stage, 903 reports were evaluated for eligibility, but 885 were excluded because "they do not match the keywords employee AND performance AND employee AND engagement AND environment." Finally, only 18 studies made it through and were included in the systematic literature review (SLR). This rigorous selection process shows that the research is carried out with a systematic method and focuses on the relevance and quality of the source so that the results obtained are more valid and reliable.

3. RESULTS AND DISCUSSION

3.1. Documents by year

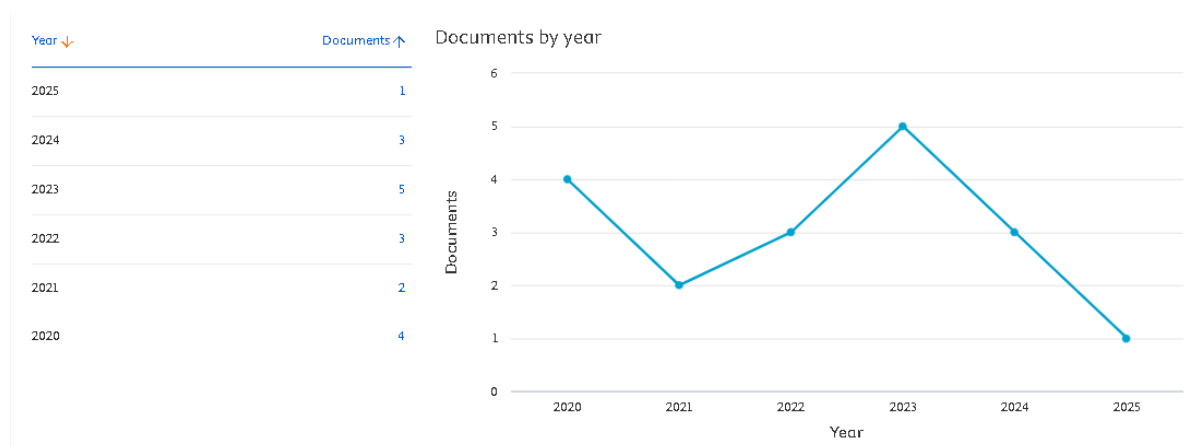


Figure 1. Graphs Documents by Year

Based on the "Documents by Year" graph, the distribution of the number of documents studied in the study shows variations from 2020 to 2025. In 2020 there were four relevant documents, but this number decreased to 2 in 2021. The trend then increased with three documents in 2022 and peaked in 2023 with five documents. After that, the number of documents decreased to 3 in 2024 and only 1 in 2025. These fluctuations reflect the dynamics of research related to the studied topic, where research interest or relevance may increase in some years and decrease in others. The peak in the number of documents in 2023 may indicate that the topic received more attention from researchers that year. However, the decline afterwards suggests a possible shift in research focus to other areas or the limited number of recent studies available.

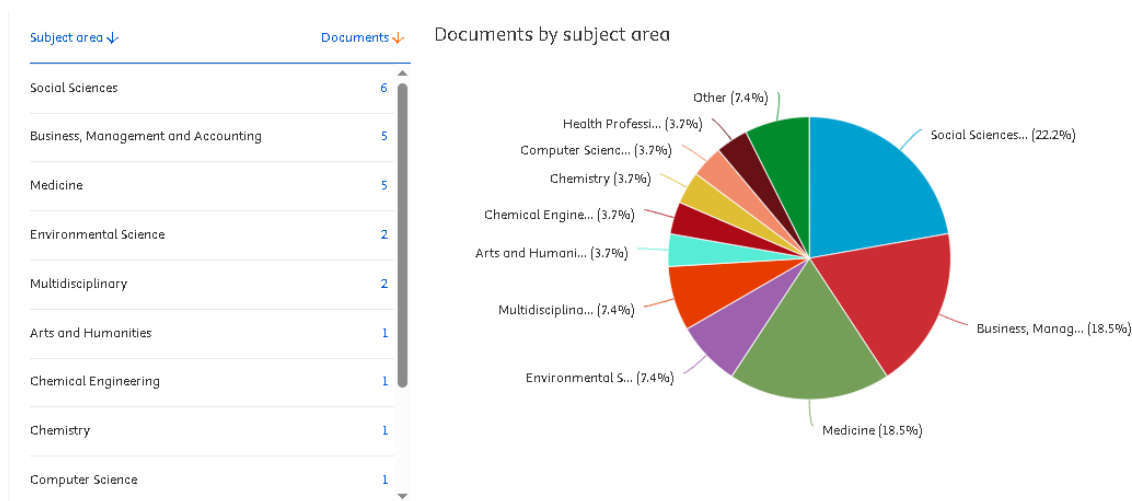


Figure 2. Diagram Documents by Subject Area

Based on the "Documents by Subject Area" diagram, the distribution of documents by field of study shows that Social Sciences has the highest number of documents, which is six (22.2%). It shows that research on the topics studied is more associated with social aspects, such as human interaction in the work environment. Business, Management, Accounting, and Medicine fields have five documents (18.5%). This indicates that this research also relates to the managerial aspects of work and health. Meanwhile, Environmental Science and Multidisciplinary each have two papers (7.4%), which shows that several studies relate this topic to environmental aspects and cross-disciplinary approaches. Other fields, such as Arts and Humanities, Chemical Engineering, Chemistry, and Computer Science, each have only 1 document (3.7%), suggesting that these topics have more limited relevance in these fields. This distribution shows that the studies focused more on the social, business, and health fields, while the contributions from other disciplines were smaller. It Indicates that research explores more aspects of organization and management and its impact on individuals in the work environment.

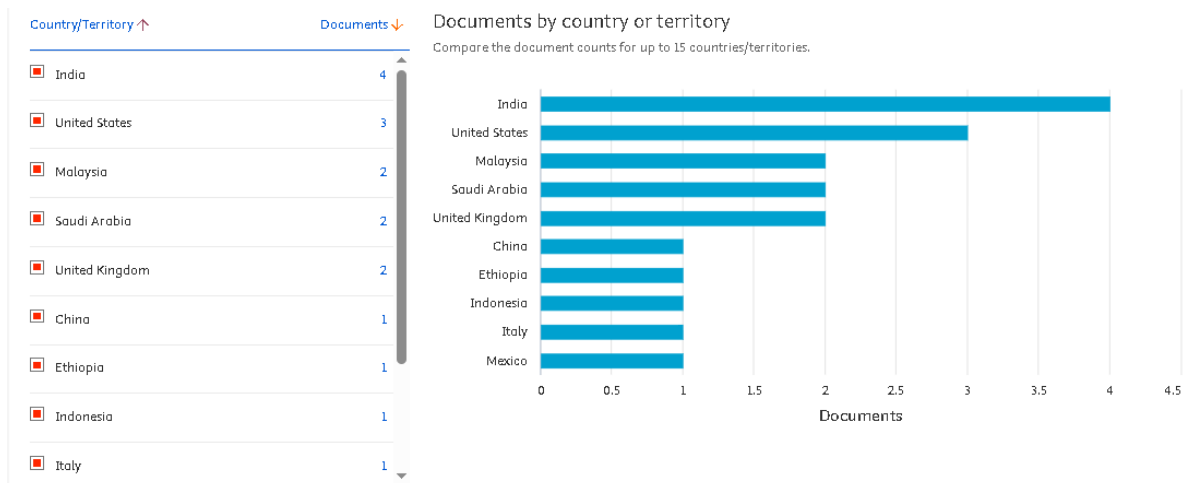


Figure 3. Diagram Documents by Country or Territory

Based on the "Documents by Country or Territory" diagram, the distribution of the number of documents by country shows that India has the highest number of publications with four documents, indicating that research on this topic is quite much done in the country. The United States occupies the second position with three documents showing significant contributions to research from developed countries' perspectives. Furthermore, Malaysia, Saudi Arabia (Saudi Arabia), and the United Kingdom (United Kingdom) each have two documents, which indicates that this topic is also receiving attention in countries with developing and developed economies. Meanwhile, countries such as China, Ethiopia, Indonesia, Italy, and Mexico each have only 1 document, which shows that despite research contributions, the number is still relatively small compared to other countries. This distribution indicates that research on this topic is more dominant in Asian and American countries, with India and the United States as the main contributors. It may be due to the academic and industry interests in those countries researching the relationship between compensation, the work environment, employee engagement, and employee performance in various sectors.

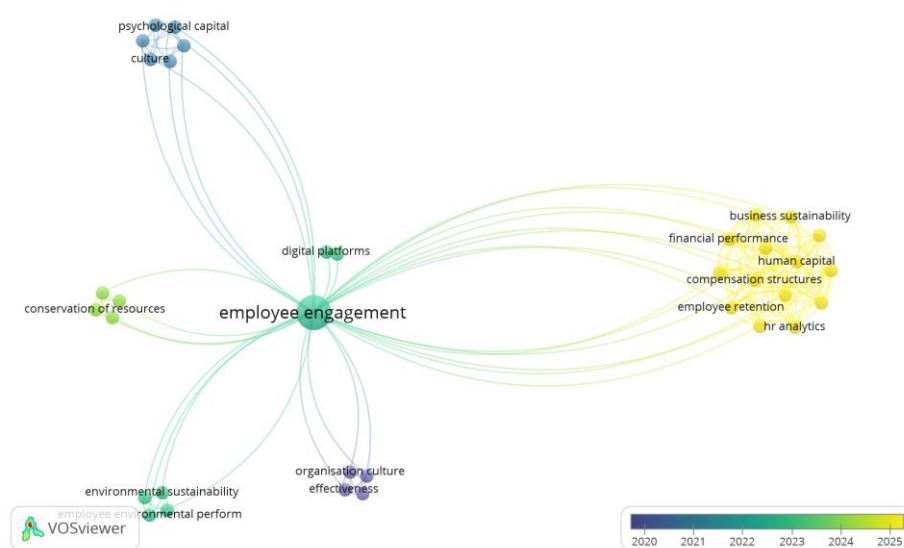


Figure 4. Distribution results Vosviewers

This visualization from VOSviewer illustrates the interconnectedness of various concepts with employee engagement as a research centre, which is relevant to the systematic study of the role of employee involvement in the relationship between compensation, work environment, and performance. In the context of the research "Exploring the Role of Employee Engagement in the Link Between Compensation, Work Environment, and Performance," some of the key aspects shown in this graph can be linked. For example, compensation appears in the yellow group along with human capital, employee retention, financial performance, and business sustainability, indicating that compensation structures are closely related to employee engagement and its impact on business sustainability and retention. In addition, aspects of the work environment are reflected in the connection to organizational culture, effectiveness, and psychological capital, which highlights how organizational culture and employee psychological capital play a role in increasing employee engagement. Other factors, such as environmental sustainability and conservation of resources, also emerge, which can point to recent trends in employee engagement research related to environmental sustainability in the workplace.

Furthermore, the role of digital platforms directly connected to employee engagement emphasizes that technology and digital transformation are increasingly important factors in supporting employee engagement. It aligns with the trend that digital platforms can strengthen the relationship between the work environment and employee engagement in improving their performance. Overall, this relationship map supports research on how employee engagement is a key factor in bridging the influence of compensation and the work environment on employee performance. These results also confirm the need for a strategic approach in HR management, considering employee well-being, organizational culture, and technology integration to increase engagement and productivity.

3.2. The Effect of Compensation on Employee Engagement and Employee Performance

Compensation is one of the main factors affecting employee engagement and workplace performance. Previous studies have shown that a fair and competitive compensation system can increase employee motivation, job satisfaction, and engagement in achieving organizational goals (Mustafa & Lleshi, 2024; Sanusi & Johl, 2020; Sussman et al., 2023). Herzberg (1959), in his two-factor theory, stated that compensation acts as a hygiene factor that prevents job dissatisfaction, while performance-based compensation can be a motivational factor. In Indonesia, the compensation system is still a challenge for many organizations, especially in the labour-intensive industrial sector and MSMEs that often face limitations in providing competitive incentives for employees (Hulls et al., 2022; Ketemaw et al., 2024; van Engen et al., 2022). The study conducted by (Ahmad et al., 2025; Qalati et al., 2023) shows that employees in the manufacturing sector in Indonesia are more emotionally engaged with their jobs when given merit-based compensation, such as annual bonuses and additional incentives. Thus, implementing a more transparent and performance-based compensation system will increase employee engagement and productivity in Indonesia.

3.3. The Role of the Work Environment in Improving Employee Engagement and Employee Performance

A positive work environment significantly improves employee engagement and, ultimately, their performance. Based on the Job Demands-Resources (JD-R) theory developed by (Adjo et al. 2021; Ahmad et al., 2025; Qalati et al., 2023), a work environment with adequate resources—such as supportive leadership, good social relationships, and comfortable working conditions—will increase employee engagement and reduce work stress. In Indonesia, the condition of the work environment is still an important issue, especially in the informal sector and the creative industry. Studies conducted by (Lee et al., 2020; Mewafarosh et al., 2020) found that employees in startups in Indonesia are more likely to experience burnout due to high workload and lack of work-life balance. Therefore, organizations in Indonesia need to improve the quality of the work environment by implementing work flexibility, building an inclusive work culture, and providing employee welfare programs to improve their engagement and performance.

3.4. The Role of Employee Engagement as a Mediator between Compensation, Work Environment, and Employee Performance

Several studies have proven that employee engagement is a mediating variable that links compensation and the work environment to employee performance (Bakker et al., 2022). When employees receive decent compensation and work in a supportive environment, they will be more motivated to engage in their work, which ultimately impacts increased productivity and loyalty to the company (Alkahtani et al., 2021; Doraisamy & Rahman, 2023; Sidhu et al., 2020). In the Indonesian context, research conducted by (Kaurav et al., 2022 Sidhu et al., 2020 and Udin, 2023) shows that employee engagement in the banking sector increases because employees feel valued by the organization through fair compensation and a conducive work environment. It suggests that employee engagement depends on financial

incentives and psychosocial factors such as relationships with colleagues and support from superiors. Therefore, organizations in Indonesia need to develop strategies that focus on increasing compensation, establishing a healthy work culture, and supporting employee well-being.

4. CONCLUSIONS

The results of the literature review show that compensation and work environment play an important role in improving employee engagement and performance. Previous studies have confirmed that fair and competitive compensation increases motivation and strengthens employee loyalty and productivity. In addition, a conducive work environment, including physical and psychosocial aspects, can create a work atmosphere that supports employee engagement and well-being. Employee engagement also acts as a mediator that strengthens the relationship between compensation, the work environment, and employee performance. In the Indonesian context, the main challenge is implementing performance-based compensation policies and creating a work environment that can sustain employee engagement. Therefore, companies in Indonesia need to adopt strategies that integrate competitive compensation policies, improve the quality of the work environment, and strengthen an organizational culture that encourages innovation and employee engagement to achieve optimal performance.

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