

## The Role of Financial and Non-Financial Compensation in Improving Employee Work Productivity at CV Galih Langgeng Jaya

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### ABSTRACT

Employee productivity remains a central concern for small and medium-sized enterprises because productivity determines operational continuity, cost efficiency, and the ability to achieve business targets. This study examines the effects of financial compensation and non-financial compensation on employee work productivity at CV Galih Langgeng Jaya. Using a quantitative explanatory design, data were collected through a cross-sectional questionnaire survey involving the entire population of 88 employees, selected through census sampling. The data were analyzed using partial least squares structural equation modeling (PLS-SEM) with SmartPLS. The results show that financial compensation has a positive and significant effect on work productivity ( $\beta = 0.324$ ,  $t = 2.070$ ,  $p = 0.038$ ), while non-financial compensation also has a positive and significant effect ( $\beta = 0.493$ ,  $t = 2.863$ ,  $p = 0.004$ ). The model explains 61.2% of the variance in employee work productivity, indicating moderate-to-substantial explanatory power. Non-financial compensation has the stronger effect, suggesting that recognition, a supportive work environment, harmonious work relationships, and career development opportunities are critical productivity drivers. However, the heterotrait-monotrait ratio indicates discriminant validity concerns between several constructs, particularly financial and non-financial compensation; therefore, the results should be interpreted with caution and future studies should refine the measurement items. The study contributes to human resource management literature by demonstrating the combined role of material and psychological rewards in enhancing employee productivity in a medium-sized enterprise context.

**Keywords:** financial compensation; non-financial compensation; employee productivity; rewards; PLS-SEM; human resource management

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### INTRODUCTION

In an increasingly competitive business environment, organizations are required to improve employee work productivity as a key indicator of organizational effectiveness. Work productivity reflects employees' ability to generate output efficiently and effectively in accordance with organizational targets. In small and medium-sized enterprises, productivity improvement is particularly challenging because firms frequently operate with limited resources, less formalized management systems, and dynamic workforce conditions. Productivity is therefore not merely an operational indicator but also a strategic factor that determines business sustainability and competitiveness.

One organizational factor frequently associated with employee productivity is compensation. Compensation refers to all forms of remuneration provided by an

organization to employees in exchange for their contributions. It is commonly divided into financial compensation, including salaries, bonuses, incentives, and allowances, and non-financial compensation, including recognition, work environment quality, career development, promotion opportunities, and social support at work. Prior studies indicate that compensation systems influence employee motivation, job satisfaction, commitment, and performance (Chiang & Birtch, 2012; Nawab & Bhatti, 2011; Robbins & Judge, 2022).

Recent human resource management literature emphasizes that employee rewards should not be reduced to monetary incentives alone. Financial compensation remains important because it provides economic security and signals organizational appreciation, but non-financial compensation addresses higher-order psychological needs, including recognition, belongingness, autonomy, competence, and growth (Deci & Ryan, 2000; Gerhart & Fang, 2015). From the perspective of social exchange theory, employees who perceive fair and meaningful rewards are more likely to reciprocate through stronger commitment and productive work behavior (Blau, 1964; Cropanzano & Mitchell, 2005).

Although compensation and productivity have been widely discussed, several empirical studies continue to examine financial rewards in isolation, while fewer studies assess the simultaneous role of financial and non-financial compensation in medium-sized enterprise contexts. This gap is relevant for CV Galih Langgeng Jaya because employee productivity directly determines operational efficiency and the achievement of business targets. A firm-specific empirical analysis is therefore needed to identify whether financial compensation, non-financial compensation, or both contribute more strongly to employee work productivity.

Accordingly, this study aims to analyze the effects of financial compensation and non-financial compensation on employee work productivity at CV Galih Langgeng Jaya. Theoretically, the study extends compensation and motivation literature by testing a combined reward model. Practically, it provides evidence for management in designing balanced compensation policies that are fair, motivating, and productivity-oriented.

## **Literature Review and Hypothesis Development**

### **1. Employee Work Productivity**

Employee work productivity refers to the degree to which employees produce outputs in an effective, efficient, and goal-oriented manner. Productivity is influenced by individual factors such as motivation, competence, discipline, and job satisfaction, as well as organizational factors such as leadership, organizational culture, compensation systems, and working conditions (Robbins & Judge, 2022). In the context of this study, employee productivity is understood as a behavioral and performance outcome that can be strengthened through appropriate reward systems.

### **2. Financial Compensation and Work Productivity**

Financial compensation includes direct and indirect monetary rewards such as wages, salaries, bonuses, incentives, and allowances. Equity theory suggests that employees compare the rewards they receive with their inputs and with the rewards received by others; perceived fairness can increase motivation and work effort (Adams,

1965). Empirical research has also shown that financial rewards can influence motivation, job satisfaction, and performance, particularly when they are perceived as fair and linked to employee contributions (Chiang & Birtch, 2012; Gerhart & Fang, 2015). Therefore, the first hypothesis is proposed: *H1: Financial compensation has a positive and significant effect on employee work productivity.*

### **3. Non-Financial Compensation and Work Productivity**

Non-financial compensation refers to non-monetary rewards that fulfill psychological, social, and developmental needs, including recognition, supportive work relationships, a comfortable work environment, promotion opportunities, autonomy, and career development. Self-determination theory explains that individuals perform better when their needs for autonomy, competence, and relatedness are supported (Deci & Ryan, 2000). In addition, social exchange theory suggests that employees reciprocate organizational support through positive work attitudes and higher performance (Blau, 1964; Cropanzano & Mitchell, 2005). Thus, the second hypothesis is proposed: *H2: Non-financial compensation has a positive and significant effect on employee work productivity.*

### **4. Dominant Effect of Compensation Type**

While financial compensation provides economic security, non-financial compensation may produce stronger long-term effects because it strengthens intrinsic motivation, engagement, loyalty, and affective attachment to the organization. In work environments where basic monetary compensation is already perceived as acceptable, psychological rewards may become more salient determinants of productivity. Therefore, the following hypothesis is proposed: *H3: Non-financial compensation has a more dominant effect on employee work productivity than financial compensation.*

## **METHODS**

This study used a quantitative explanatory design to examine the causal-predictive relationships among financial compensation, non-financial compensation, and employee work productivity. Data were collected using a cross-sectional survey, meaning that the questionnaire was administered once during the study period. The design was selected because the study aimed to test the direction, magnitude, and statistical significance of relationships among latent variables.

The population consisted of all 88 employees of CV Galih Langgeng Jaya. Because the population size was relatively limited, the study used census sampling or saturated sampling, in which all population members were included as respondents. This sampling approach reduces sampling error within the organizational context and allows the findings to represent the observed population more directly.

Data were collected using a structured closed-ended questionnaire based on a five-point Likert scale. The instrument measured three latent constructs: financial compensation, non-financial compensation, and employee work productivity. Financial compensation was operationalized through indicators related to salary, bonuses, incentives, allowances, and perceived fairness of monetary rewards. Non-financial compensation was operationalized through recognition, work environment, work

relationships, promotion opportunities, and career development. Work productivity was measured through indicators reflecting output achievement, work efficiency, task completion, and work quality.

The data were analyzed using partial least squares structural equation modeling (PLS-SEM) with SmartPLS. The analysis followed two major stages: assessment of the measurement model and assessment of the structural model. The measurement model was evaluated through internal consistency reliability, convergent validity, and discriminant validity. Internal consistency was assessed using Cronbach's alpha and composite reliability, while convergent validity was assessed using average variance extracted (AVE). Discriminant validity was evaluated using the heterotrait-monotrait ratio (HTMT), with values below 0.90 generally indicating acceptable discriminant validity for conceptually related constructs (Henseler et al., 2015). The structural model was evaluated using the coefficient of determination ( $R^2$ ), path coefficients, t-statistics, p-values, and total effects (Hair et al., 2021; Hair et al., 2022; Sarstedt et al., 2021).

## RESULTS AND DISCUSSION

### 1. Measurement Model Assessment

The reliability and convergent validity results indicate that all constructs met the recommended thresholds. Cronbach's alpha values ranged from 0.803 to 0.868, composite reliability values ranged from 0.871 to 0.905, and AVE values ranged from 0.590 to 0.657. These results indicate adequate internal consistency and convergent validity for all constructs.

Table 1. Construct reliability and convergent validity results.

| Construct                  | Cronbach's alpha | rho_A | Composite reliability | AVE   | Interpretation     |
|----------------------------|------------------|-------|-----------------------|-------|--------------------|
| Financial compensation     | 0.868            | 0.882 | 0.905                 | 0.657 | Reliable and valid |
| Non-financial compensation | 0.824            | 0.831 | 0.877                 | 0.590 | Reliable and valid |
| Work productivity          | 0.803            | 0.809 | 0.871                 | 0.627 | Reliable and valid |

### 2. Discriminant Validity

The HTMT results reveal a critical measurement issue. The HTMT value between financial compensation and non-financial compensation was 0.974, which exceeds the recommended threshold of 0.90. The HTMT value between non-financial compensation and work productivity was 0.921, which also exceeds the threshold. In contrast, the HTMT value between financial compensation and work productivity was 0.854, which meets the recommended criterion. These findings suggest that several constructs, particularly financial and non-financial compensation, may not be sufficiently distinct in respondents' perceptions. Consequently, the interpretation of the structural model should be made cautiously, and future research should refine the questionnaire items to improve construct separation.

Table 2. HTMT discriminant validity results.

| Relationship  | HTMT value | Criterion | Interpretation                |
|---|------------|-----------|-------------------------------|
| Financial compensation - Non-financial compensation | 0.974      | < 0.90    | Discriminant validity concern |

|  |       |        |                               |
|--|-------|--------|-------------------------------|
| Financial compensation - Work productivity     | 0.854 | < 0.90 | Acceptable                    |
| Non-financial compensation - Work productivity | 0.921 | < 0.90 | Discriminant validity concern |

### 3. Structural Model Assessment

The R<sup>2</sup> value for employee work productivity was 0.612, indicating that financial compensation and non-financial compensation jointly explain 61.2% of the variance in work productivity. The adjusted R<sup>2</sup> value was 0.607, showing that the explanatory capacity of the model remained stable after adjustment. The remaining 38.8% of variance may be explained by factors outside the model, such as leadership, organizational culture, work discipline, job satisfaction, work-life balance, and individual competence. Table 3. Coefficient of determination.

| Endogenous construct | R <sup>2</sup> | Adjusted R <sup>2</sup> | Interpretation                            |
|----------------------|----------------|-------------------------|---|
| Work productivity    | 0.612          | 0.607                   | Moderate-to-substantial explanatory power |

### 4. Hypothesis Testing

The path coefficient results show that financial compensation has a positive and significant effect on employee work productivity ( $\beta = 0.324$ ,  $t = 2.070$ ,  $p = 0.038$ ). Therefore, H1 is supported. The results also show that non-financial compensation has a positive and significant effect on employee work productivity ( $\beta = 0.493$ ,  $t = 2.863$ ,  $p = 0.004$ ). Therefore, H2 is supported. Because the coefficient for non-financial compensation is higher than that for financial compensation, H3 is also supported, indicating that non-financial compensation has the more dominant effect on work productivity.

Table 4. Path coefficient and hypothesis testing results.

| Hypothesis | Path  | Coefficient   | t-statistic | p-value | Decision  |
|------------|---|---------------|-------------|---------|-----------|
| H1         | Financial compensation -> Work productivity     | 0.324         | 2.070       | 0.038   | Supported |
| H2         | Non-financial compensation -> Work productivity | 0.493         | 2.863       | 0.004   | Supported |
| H3         | Dominance of non-financial compensation         | 0.493 > 0.324 | -           | -       | Supported |

### 5. Total Effects

The total effect of financial compensation on work productivity was 0.324 and statistically significant ( $t = 2.070$ ,  $p = 0.038$ ). The total effect of non-financial compensation was 0.493 and statistically significant ( $t = 2.863$ ,  $p = 0.004$ ). These findings confirm that both compensation dimensions contribute to employee productivity, but non-financial compensation demonstrates a stronger total effect.

Table 5. Total effects.

| Relationship                                    | Total effect | t-statistic | p-value | Interpretation              |
|---|--------------|-------------|---------|-----------------------------|
| Financial compensation -> Work productivity     | 0.324        | 2.070       | 0.038   | Significant positive effect |
| Non-financial compensation -> Work productivity | 0.493        | 2.863       | 0.004   | Significant positive effect |

## Discussion

The findings demonstrate that financial compensation positively and significantly affects employee work productivity. This result supports compensation theory and equity theory, which argue that fair monetary rewards can increase employees' perceived organizational fairness and motivate higher work effort (Adams, 1965; Gerhart & Fang, 2015). In the context of CV Galih Langgeng Jaya, salary, bonuses, incentives, and allowances appear to function as important signals of organizational appreciation and as practical mechanisms for encouraging employees to achieve work targets.

The results also show that non-financial compensation positively and significantly affects work productivity. This finding is consistent with self-determination theory, which emphasizes the role of autonomy, competence, and relatedness in motivating individuals to perform effectively (Deci & Ryan, 2000). Recognition, a comfortable work environment, harmonious relationships, and career development opportunities may enhance employees' psychological attachment to the organization and encourage sustained productive behavior.

The dominance of non-financial compensation is an important finding. Although financial compensation remains necessary, the stronger coefficient of non-financial compensation suggests that psychological and social rewards may have greater practical relevance for long-term productivity in this organizational context. This finding aligns with social exchange theory, which suggests that employees respond positively when organizations provide support, recognition, and opportunities for growth (Blau, 1964; Cropanzano & Mitchell, 2005).

Nevertheless, the discriminant validity results require careful interpretation. The HTMT values above 0.90 indicate that respondents may not clearly distinguish financial compensation from non-financial compensation, or that the measurement items may contain overlapping meanings. This issue does not automatically invalidate the entire model, but it reduces confidence in the empirical distinctiveness of the constructs. For a manuscript intended for a reputable international journal, this limitation should be disclosed transparently and addressed through item refinement, expert validation, pilot testing, or a revised measurement model in future research.

## Theoretical and Practical Implications

### 1. Theoretical Implications

This study contributes to human resource management literature by empirically demonstrating that financial and non-financial compensation jointly influence employee work productivity. The findings support the integration of equity theory, self-determination theory, and social exchange theory in explaining how material and psychological rewards shape productive work behavior. The study also highlights the need for clearer conceptual and measurement boundaries between compensation dimensions in future PLS-SEM research.

### 2. Practical Implications

For CV Galih Langgeng Jaya, the findings suggest that management should adopt a balanced compensation strategy. Financial compensation should be maintained through fair salaries, transparent incentives, and appropriate allowances. At the same

time, greater attention should be given to non-financial compensation, particularly employee recognition, career development, a supportive work environment, and constructive supervisor-employee relationships. Because non-financial compensation shows the stronger effect, improving these aspects may provide a cost-effective strategy for strengthening long-term productivity.

### **Limitations and Future Research**

This study has several limitations. First, the research was conducted in a single company, which limits the generalizability of the findings to other organizational contexts. Second, the cross-sectional design does not allow strong causal claims over time. Third, discriminant validity concerns were identified, particularly between financial and non-financial compensation. Future studies should refine the measurement instrument, conduct pilot testing, and consider using additional validation procedures such as expert judgment, exploratory factor analysis, or confirmatory composite analysis. Future research should also incorporate other variables such as leadership style, job satisfaction, organizational culture, work discipline, employee engagement, competence, and work-life balance to improve the comprehensiveness of the productivity model.

### **CONCLUSION**

This study concludes that financial compensation and non-financial compensation both have positive and significant effects on employee work productivity at CV Galih Langgeng Jaya. Financial compensation significantly improves productivity through monetary rewards such as salary, incentives, bonuses, and allowances. Non-financial compensation has an even stronger effect, indicating that recognition, supportive working conditions, good interpersonal relationships, and career development opportunities are crucial drivers of employee productivity. The model explains 61.2% of the variance in work productivity, demonstrating meaningful explanatory power. However, because the HTMT results indicate discriminant validity concerns, the findings should be interpreted cautiously and future studies should improve the measurement model. Overall, the evidence suggests that a balanced compensation strategy integrating both material and psychological rewards is essential for sustainably improving employee productivity.

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