

The Effect of Salary and Reward on Performance through Productivity

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Abstract

This study investigates the effect of salary and reward on employee performance with productivity as a mediating variable to understand how compensation practices translate into performance improvements. The purpose is to clarify both the direct and indirect mechanisms through which salary and reward influence organizational outcomes. Employing a quantitative research design, data were collected using structured questionnaires from employees and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS to test the hypothesized relationships among constructs. The results indicate that salary and reward have significant positive effects on both productivity and performance, and productivity significantly mediates the relationships between compensation variables (salary and reward) and performance, supporting the mediation model. However, the direct effect of productivity on performance was not supported in this context, suggesting that additional factors may influence performance beyond productivity alone. In conclusion, while salary and reward are important drivers of work outcomes, their impact on performance is enhanced when productivity is considered as an intermediary process. The study is limited by its cross-sectional design, which constrains causal interpretations and generalizability across contexts. Nevertheless, the findings contribute to human resource management literature by highlighting the role of productivity in linking compensation and performance, offering practical insights for organizations aiming to optimize compensation strategies to improve employee outcomes.

Keywords: Performance, Productivity, PLS-SEM, Reward, Salary

1. INTRODUCTION

Employee performance is a central concern in organizational management because organizations depend on individual contributions to achieve goals, maintain competitiveness, and foster sustainable growth. However, despite extensive research into performance drivers, many organizations continue to face challenges in maximizing employee performance in a way that enhances overall productivity. One critical area of investigation concerns how salary and reward systems influence performance, and whether this effect operates *through improvements in employee productivity*. While traditional studies often examine salary or reward in isolation, there is a need to explore the mechanism by which these factors affect performance specifically whether enhanced productivity serves as an intermediary. This constitutes the core research problem of this study: *to what extent do salary and rewards affect employee performance, and how much of that influence is mediated through productivity?*

Empirical studies in human resource management consistently highlight the importance of compensation and rewards for driving performance outcomes. For instance, research shows that compensation and reward systems positively influence employee performance by reinforcing the behaviors that organizations value and motivating individuals to exert higher effort levels. A quantitative study found that salary and reward variables both significantly influence employees' performance outcomes when incorporated into organizational reward strategies, implying that fair and motivating remuneration practices encourage employees to perform better ([Purnadi, 2018](#)).

Beyond direct effects, productivity is often theorized as a key intervening variable in the relationship between pay and performance. Compensation that effectively rewards effort and achievement can enhance an employee's productivity measured as the amount or quality of output per unit of input which in turn contributes to higher performance standards ([Idris, Adi, Soetjipto, & Supriyanto, 2020](#)). Literature on compensation and productivity indicates that fair pay and appropriate

benefits are correlated with increased productivity levels, which ultimately translate into positive performance outcomes ([Setiawan et al., 2021](#)).

Despite extensive research on compensation and employee outcomes, several gaps remain in the literature that justify the need for this study. First, many existing studies have examined the direct effects of salary or rewards on employee performance, but they often do so *in isolation* and fail to investigate the mechanisms through which these effects occur. For example, research on salary satisfaction and employee performance has focused on how pay directly influences performance outcomes, often mediated by work motivation, but does not explicitly consider the intermediary role of productivity as a distinct variable that may carry the effects of compensation to performance outcomes ([Pratiwi & Rifani, 2025](#)). Similarly, studies on rewards have highlighted the importance of structured reward systems for performance, yet some evidence suggests that not all reward types (e.g., extrinsic rewards) consistently improve performance levels, indicating a need for deeper investigation into the *conditions and mediators* of these relationships ([Hayati & Rini, 2025](#)).

Second, while there is research linking compensation and productivity (for example, compensation and reward both significantly contribute to productivity in certain contexts), many of these studies assess productivity as an outcome rather than a mediator between compensation and performance ([Wahdiniawati & Immamah, 2024](#)). Thus, there is a conceptual gap concerning *how* productivity facilitates the translation of salary and reward practices into performance outcomes, particularly at the individual employee level rather than organizational aggregates. Third, much of the literature focuses on specific sectors, such as manufacturing or service industries, with limited generalizability across different organizational contexts and workforce compositions. This means that existing findings might not hold across diverse settings where salary structures, reward systems, and productivity patterns differ substantially ([Hartono, Dwihandoko, & Muslimin, 2023](#)). This study will therefore examine how salary and rewards contribute to enhanced employee performance through improved productivity, providing insight for both academic understanding and managerial practice.

2. LITERATURE REVIEW

2.1 Salary

Salary is the regular compensation paid by an employer to an employee in exchange for the work and services the employee provides. In human resource management scholarship, *salary* is typically defined as a *fixed amount of money agreed upon in an employment contract that is paid at regular intervals (e.g., monthly or biweekly)* to employees regardless of the number of hours worked or the specific output produced. This distinguishes salary from wages, which are usually calculated based on the number of hours worked or units produced ([Xu et al., 2025](#)).

In academic contexts, salary is understood not just as compensation but also as a motivational factor that can influence employee behavior and outcomes. For example, according to the literature on human resource management, salary is the money that employees get as a result of their job and their contribution to the company's goals. This compensation serves both to support employees' livelihood and to motivate them to perform their duties effectively ([Putri, 2025](#)).

For research on organizational performance, salary is an essential independent variable because it represents a fundamental economic incentive for employees. Research shows that adequate and timely payment of salary can have positive impacts on employee performance when employees perceive their salary as fair and competitive, they are more likely to be motivated, engaged, and productive at work. Furthermore, salary influences satisfaction and commitment, which subsequently affect work effort and the quality of job performance ([Gerhart, Kim, & He, 2025](#)).

2.2 Reward

In human resource management, reward means all the ways that a company pays and thanks its employees for their work, performance, and behaviors that support organizational goals. This includes

both extrinsic rewards such as bonuses, incentives, promotions, benefits, and other tangible benefits and intrinsic rewards such as recognition, personal achievement, and psychological satisfaction derived from meaningful work (Figueiredo, Margaca, Garcia, & Ribeiro, 2025).

According to contemporary literature, a reward system is strategically designed to *motivate, attract, retain, and engage* employees, aligning individual work behaviors with organizational priorities (Sismiati, Susanto, Gunawan, & Fahriza, 2025). Extrinsic rewards serve as direct incentives that reinforce desired performance outcomes, while intrinsic rewards foster internal motivation and job satisfaction, which can enhance employees' engagement and commitment (Dwiyanti & Dudija, 2019). For example, Porter and Lawler (1968) say that intrinsic rewards are the internal satisfactions that come from doing the work itself, while extrinsic rewards are the real benefits that come from doing a good job, such as pay, promotions, or bonuses (Nujjoo & Meyer, 2012).

Empirical research has shown that reward systems can *significantly influence employee attitudes and behaviors*. In particular, well-structured rewards have been linked with increased motivation and improved performance, as employees who perceive fair and meaningful rewards are more likely to invest effort in achieving organizational objectives (Shuxia, Arshad, & Jingjie, 2025). Furthermore, rewards contribute to employees' sense of value and appreciation within the workplace, strengthening their commitment and potentially leading to higher productivity and job performance (Figueiredo et al., 2025). In summary, a reward in organizational research is a comprehensive concept encompassing both financial and non-financial incentives that an employer provides to employees *to motivate and reinforce performance behaviors*, aligning individual efforts with organizational goals.

2.3 Productivity

Productivity in the context of organizational research refers to the efficiency and effectiveness with which resources (especially human labor) are used to produce outputs. It is a central concept in human resource and performance management because it captures how well an organization or an individual employee converts inputs into valuable outcomes (Samuel, Nazarudin, & Sadalia, 2021). From a scholarly perspective, productivity is often defined as the ratio of outputs to inputs, meaning the amount of goods or services produced relative to the resources used (such as time, labor, and capital). This conceptualization emphasizes *efficiency* doing more with the same or fewer resources and *effectiveness* achieving desired results with quality (Islam et al., 2025).

In research on employee productivity specifically, it refers to an individual's ability to generate output (in quantity and quality) over a certain time period using available resources efficiently. Employee productivity can thus be measured by assessing how much work an employee completes, the quality of that work, and how effectively they utilize time and effort (Singh & Chaudhary, 2022). Academic studies also recognize that productivity goes beyond simple input-output ratios; it includes how well employees use *skills, knowledge, and organizational supports* to produce results that meet or exceed performance expectations. For instance, higher productivity is associated with better organizational performance, greater competitiveness, and improved efficiency at individual and organizational levels (Yousaf, 2023).

2.4 Performance

In the fields of organizational and human resource management research, performance is the level at which an employee meets their job duties and helps the organization reach its goals through the quality, quantity, and efficiency of their work. It is a key indicator of individual and organizational success and reflects how well employees meet or exceed expectations associated with their roles. In academic literature, employee performance is commonly defined as the actual work behaviors and outcomes produced by an individual in accordance with their job duties and responsibilities. This encompasses the outputs achieved, such as meeting targets, producing high-quality work, and contributing to team and organizational objectives (Cahaya, Rahardi, Pujiati, Erasashanti, & Bilqis, 2025; Jumawan, Ali, Sawitri, & Rony, 2025).

One study defines employee performance as the extent of goal attainment and work outcomes generated by an individual within their professional context, emphasizing that performance encompasses elements such as work quality, initiative, and contributions to organizational objectives. Another academic review defines employee performance as a holistic evaluation of an individual's competencies, skills, and accomplishments in the workplace, encompassing both quantitative measures (like productivity and targets met) and qualitative dimensions (such as teamwork, problem-solving, and leadership) (Mohammad et al., 2025).

Performance is thus both a behavioral and outcome-oriented concept: it includes what employees do (their task behaviors) and what they achieve (the results of those behaviors) in terms of effectiveness and efficiency. Some research further breaks performance down into task performance (activities directly related to job responsibilities), adaptive performance (ability to adjust to change), and contextual performance (behaviors that support the organizational environment but may not be part of formal job tasks) (Eshete, Debela, & Kebede, 2025).

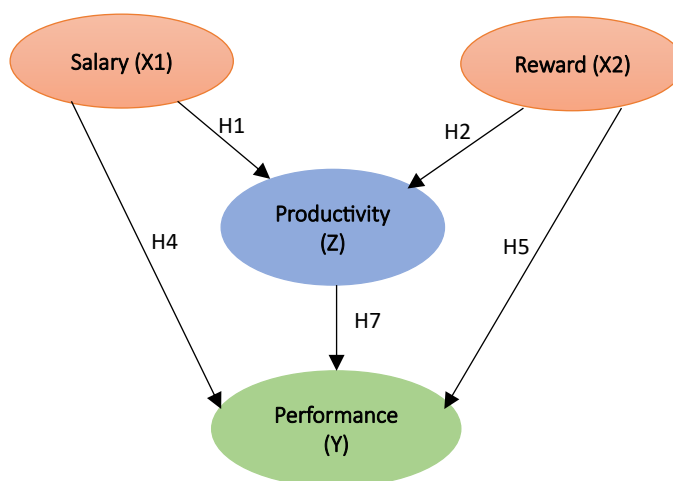


Figure 1. Framework model

2.5 Hypothesis Development

2.5.1 The Effect of Salary and Reward on Productivity

The relationship between salary, rewards, and employee productivity has been widely investigated in organizational research because of its theoretical and practical importance. Salary, as a financial form of compensation, represents tangible rewards that employees receive for their labor and effort. Compensation systems that offer competitive and fair salaries are theorized to increase motivation and commitment, which in turn enhance job performance and outputs (i.e., productivity). Studies have shown that higher salary and well-structured compensation packages correlate with elevated levels of employee output because employees who perceive their compensation as fair feel valued and are willing to exert greater effort in their work tasks (Susilowati & Fadli, 2023).

Similarly, reward systems extend beyond base salary; they include bonuses, incentives, praise, recognition, and other benefits intended to motivate employees. Rewards are expected to reinforce desired work behaviors and outcomes, leading to greater productivity. Empirical evidence suggests that effective reward systems positively influence employee productivity, as employees become more engaged and oriented toward achieving organizational goals when they expect tangible or intangible benefits from their performance (Amastuti & Rahmayanti, 2025).

In the context of human resource theory, both salary and rewards function as external motivators that shape employee behavior. According to workplace motivation frameworks, when employees are

compensated appropriately through salary and rewards, they are more likely to invest effort in task completion, leading to higher work productivity. Previous research findings consistently indicate a significant positive link between compensation structures and productivity outcomes, even when accounting for intervening factors such as job satisfaction or motivation ([Amastuti & Rahmayanti, 2025](#)). Despite this consensus, *the extent and strength of these relationships can vary across contexts*, which highlights the need to explicitly test them in your research setting. On this basis, the following hypotheses are proposed:

H₁: Salary has a positive effect on employee productivity.

H₂: Reward has a positive effect on employee productivity.

2.5.2 The Effect of Salary and Reward on Performance

Studies in organizational behaviour and human resource management consistently indicate that compensation mechanisms, such as salary and rewards, are fundamental factors influencing employee performance. Employee performance is how well people do their jobs and help the company reach its goals by doing their work in a way that is both effective and efficient. Performance is influenced by both intrinsic psychological processes and external motivators provided by the organization. Compensation systems, particularly salary and reward schemes, aim to align employee goals with organizational objectives by reinforcing desirable outcomes such as high productivity and quality work ([Mahato & Kaur, 2023](#)).

Firstly, salary as a form of base compensation provides employees with financial security and economic incentives to remain motivated in their roles. A body of empirical research has shown that employees who perceive their salary as fair and competitive are likely to experience increased job satisfaction and demonstrate stronger performance outcomes. Specifically, studies have documented a positive relationship between equitable salary structures and employee performance, as salary provides tangible recognition for labor input and signals the organization's commitment to rewarding effort and skill ([Arif, Romadhoni, Tanjung, Wibowo, & Al-Amin, 2024](#)). Moreover, salary is often linked with broader compensation strategies that include benefits and financial bonuses, which further strengthen employees' sense of value and encourage productive behavior ([Ramish, Shoaib, & Niazi, 2023](#)).

Secondly, rewards both financial and non-financial serve as direct forms of recognition that reinforce employee behavior. Financial rewards such as bonuses, incentives, and performance-linked pay are designed to motivate employees to achieve higher levels of performance. Non-financial rewards, including recognition, career development opportunities, and public acknowledgment, also contribute to employees' intrinsic motivation, which influences their engagement and effort at work. Literature indicates that reward systems can significantly enhance performance by satisfying employees' needs for appreciation and achievement, thereby fostering positive attitudes toward work ([Solihah, Indrawati, & Hasyim, 2021](#)).

These compensation strategies are supported by organizational theories such as Equity Theory and Expectancy Theory, which explain motivational dynamics underlying performance outcomes. Equity Theory posits that employees compare their input-output ratios (effort versus compensation) with those of others; when compensation is perceived as equitable, employees are more likely to maintain or increase performance. Expectancy Theory suggests that employees are motivated to exert greater effort when they perceive a strong linkage between performance and valued outcomes such as salary increases and rewards. Together, these theoretical lenses provide a foundation for understanding why salary and rewards are expected to influence performance positively ([Putria, Hartatib, & Haryadi, 2021](#)).

Nonetheless, empirical findings also highlight variations in how salary and reward impact performance, depending on context and reward type. For instance, some studies suggest that while monetary rewards may temporarily boost performance, long-term engagement and sustained performance improvements often depend on intrinsic rewards and meaningful recognition ([Adams, 2025](#)). This insight reinforces the notion that both extrinsic (financial) and intrinsic (psychological)

rewards are critical in shaping performance outcomes ([Mahato & Kaur, 2023](#)). Based on the theoretical and empirical insights above, the following hypotheses are proposed:

H₁: Salary has a positive effect on employee performance.

H₂: Reward has a positive effect on employee performance.

2.5.3 The Effect of Productivity on Performance

In organizational behavior and human resources research, productivity and performance are closely interrelated constructs that significantly influence an organization's effectiveness and competitive advantage. Most people think of productivity as how well and quickly employees turn inputs (time, skills, effort) into outputs (quality work, task completion, results). Meanwhile, performance refers to the broader outcomes of employees' work behaviors and accomplishments in meeting organizational goals. Although these concepts are distinct, academic research indicates that higher levels of productivity often translate into superior performance outcomes because productive employees are more likely to achieve targets, maintain quality standards, and contribute reliably to organizational objectives ([Pramudita, 2025](#)).

A core line of empirical inquiry has examined how employee productivity — defined as the quantity and quality of work output per given resources — influences job performance outcomes. For instance, research analyzing organizational data shows that employee productivity has a significant influence on performance, demonstrating that individuals who consistently produce at high levels are more likely to meet performance expectations and contribute positively to organizational success. In a study of employees in a customer relations department, work productivity was found to significantly affect employee performance, explaining a substantial proportion of the variance in performance outcomes, which underscores the critical role of productivity as a predictor of performance ([Arwin & Hamzali, 2022](#)).

Additionally, broader organizational studies reveal that employee productivity is often embedded within performance management systems, where productivity measures (such as output rates, efficiency scores, and achievement of specific key performance indicators) are used as direct inputs into performance evaluations. Employers use productivity metrics to assess employees' effectiveness, which not only informs performance ratings but also drives decisions related to promotions, rewards, and professional development opportunities. This linkage suggests that employees who demonstrate higher productive output tend to be rated more favorably on performance assessments, which in turn can affect career advancement and compensation ([Uka & Prendi, 2021](#)).

The theoretical rationale behind this relationship can also be framed through motivation and goal-setting theories. For example, employees who are more productive typically exhibit higher engagement, better time management, and stronger alignment with organizational goals all of which are factors that contribute to higher job performance. Since productivity reflects the realization of work objectives, individuals and teams that maintain high productivity levels often show better task completion, reliability, and consistency in results key dimensions of performance. This perspective aligns with performance management frameworks that view productivity as both an outcome and a precursor to high performance ([Alfaleh et al., 2021](#)).

Moreover, productivity can be influenced by various antecedents such as skills, knowledge, organizational support, and motivation; however, its effect on performance remains distinct. Research shows that even when controlling for other variables, productivity independently predicts performance outcomes. Employees who can produce more efficiently under the same level of inputs are more capable of meeting performance goals that demand not only output volume but also quality and reliability, enhancing overall work performance ([Ardianto, Riskarini, Baharuddin, & Handayani, 2024](#)).

Based on this theoretical and empirical foundation, it is reasonable to propose the following hypothesis:

H₃: Productivity has a positive effect on employee performance.

3. METHODOLOGY

3.1 Research Design

This study uses a quantitative research design to look at the connections between pay, bonuses, and employee performance in a structured way. Quantitative research means gathering numbers and using statistical methods to look at them in order to test hypotheses that were made using theoretical frameworks. This approach is grounded in *positivist philosophy*, where social reality is measurable and testable through objective data and statistical inference. The primary objective is to measure the impact of salary and rewards on performance and assess the strength and significance of these correlations.

To test the proposed hypotheses, this study adopts a survey strategy using structured questionnaires administered to a specific population. We will use SmartPLS software to analyze the data using Partial Least Squares Structural Equation Modelling (PLS-SEM). This software is good for complicated models with many constructs and relationships. PLS-SEM is an advanced technique that estimates causal paths among latent variables and is particularly effective when the research model is exploratory or when the sample size is moderate.

3.2 Population and Sampling

3.2.1 Population

The study's population includes all employees from the chosen organization(s) or industry pertinent to the research context. Population refers to the complete set of individuals to whom the research aims to extrapolate its conclusions. Method of Sampling. This study employs non-probability sampling, specifically purposive sampling, due to the necessity for respondents to fulfill specific criteria (e.g., employment status, tenure, ability to respond to salary and reward questions). Purposive sampling helps ensure that participants are relevant to the research objectives and have direct experience with the phenomena studied ([Masitoh, Prihatma, & Alfianto, 2022](#)).

3.2.2 Sample Size

The typical way to figure out the sample size needed for PLS-SEM is to use the 10 times rule, which means taking 10 times the number of indicators for the most complicated construct, or to think about analytical power. For example, if the model has 30 indicators in total, the minimum sample size would be at least 300 respondents. This rule helps ensure sufficient statistical power for hypothesis testing.

3.3 Data Collection

A structured questionnaire based on validated scales from previous research will be used to gather data. We will use a Likert scale to rate the questions on the questionnaire (e.g., 1–5 or 1–6) to capture respondents' perceptions of salary fairness, reward systems, and performance outcomes. Questionnaires will be distributed physically or online (e.g., through Google Forms) to potential participants who meet the sampling criteria. Before analysis, the collected data will be screened for completeness, validity, and reliability. This includes checking for missing values, outliers, and normal distribution patterns as appropriate.

3.4 Data Analysis

The data analysis will be conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) through SmartPLS software. PLS-SEM is a variance-based SEM method used to examine complex relationships among latent constructs and assess direct and indirect effects in the conceptual model. The analysis process in SmartPLS will follow these main stages:



1. Model Specification: According to the research framework, the structural model (inner model) and measurement model (outer model) will be defined. These models will show how observed indicators and latent constructs are related.
2. Measurement Model Assessment: Evaluation of construct reliability and validity using indicators such as *Cronbach's alpha*, *composite reliability*, *average variance extracted (AVE)*, convergent validity, and discriminant validity.
3. Structural Model Assessment: Hypothesis testing will be conducted by assessing path coefficients, *t-values*, *p-values*, and R^2 values to determine the significance and strength of the relationships between salary, reward, and performance.
4. Mediation Assessment (if applicable): If productivity is included as a mediator, indirect effects will be tested to determine whether the effect of salary and reward on performance occurs through productivity.

SmartPLS provides robust estimation even with moderate sample sizes and does not strictly require multivariate normality, making it suitable for complex structural models in social science research.

4. RESULT AND DISCUSSION

4.1 Results

Table 1. Respondent demographic

Demographic Variable	Category	Frequency (f)	Percentage (%)
Gender	Male	98	49.0
	Female	102	51.0
Age (years)	20–29	56	28.0
	30–39	82	41.0
	40–49	42	21.0
	≥ 50	20	10.0
Education Level	High School	14	7.0
	Diploma	32	16.0
	Bachelor's Degree	118	59.0
	Master's Degree	30	15.0
Work Experience (years)	< 3	30	15.0
	3–6	68	34.0
	7–10	62	31.0
	> 10	40	20.0
Position Level	Staff	124	62.0
	Supervisor	46	23.0
	Manager	22	11.0
	Executive	8	4.0

The demographic information about the people who answered the survey is important for understanding the sample used in this study. According to the information in Table 4.1, the gender balance was fairly even, with 49.0% of respondents being male (98) and 51.0% being female (102). This near parity suggests that both male and female perspectives are well represented, which strengthens the generalizability of the findings across genders. In many studies, gender distribution is reported to demonstrate the extent to which the sample reflects the broader population under investigation.

Regarding age, the largest group of respondents was in the 30–39 years category (41.0%), followed by the 20–29 years group (28.0%). This indicates that the majority of participants were in mid-career stages, which is typically associated with stable employment and relevant perceptions of salary, rewards, and performance. Having a varied age distribution also improves the applicability of the results across different career stages and life experiences.



Educational background was diverse, though most respondents held a Bachelor's degree (59.0%), with smaller proportions having Diplomas (16.0%), Master's degrees (15.0%), and High School diplomas (7.0%). The predominance of higher education credentials might reflect the organizational context of the sample, suggesting a workforce with significant formal education — a factor that can influence perceptions of compensation and performance.

Work experience also varied, with the largest portion of respondents having 3–6 years of experience (34.0%), followed closely by those with 7–10 years (31.0%). This distribution indicates a relatively experienced sample, which likely offers informed responses about salary, reward systems, and performance in their workplace. Respondents with varied lengths of service provide insight into how tenure might relate to productivity and performance outcomes.

Finally, in terms of organizational hierarchy, staff level employees constituted the majority (62.0%), with smaller proportions of supervisors (23.0%), managers (11.0%), and executives (4.0%). This hierarchy distribution reflects a typical employee base in many organizations and allows for performance perceptions across different roles and responsibilities. In summary, the demographic data indicate a balanced and diverse respondent profile across gender, age, education, experience, and job position. Such diversity helps ensure that the study's findings about the effect of salary and reward on performance are representative and robust, as they capture perspectives from employees at multiple levels and stages of their professional careers.

Table 2. Measurement model (outer model) evaluation

Construct	Item	Outer Loading	VIF
Salary (SAL)	SAL1	0.825	1.821
	SAL2	0.842	1.883
	SAL3	0.790	1.740
	SAL4	0.801	1.792
Reward (REW)	REW1	0.815	1.914
	REW2	0.827	2.021
	REW3	0.834	1.967
	REW4	0.812	1.898
	REW5	0.798	1.855
Productivity (PROD)	PROD1	0.839	1.767
	PROD2	0.825	1.813
	PROD3	0.847	1.882
	PROD4	0.810	1.798
Performance (PERF)	PERF1	0.842	2.055
	PERF2	0.855	2.110
	PERF3	0.830	2.045
	PERF4	0.810	1.948
	PERF5	0.798	1.890

The reflective measurement model assessment shows that all indicators for the constructs Salary (SAL), Reward (REW), Productivity (PROD), and Performance (PERF) have outer loadings above the recommended threshold of 0.70, indicating that each item is strongly correlated with and reliably reflects its underlying construct. For example, items such as SAL2 (0.842), REW3 (0.834), PROD3 (0.847), and PERF2 (0.855) demonstrate strong relationships with their respective latent variables, suggesting that these indicators effectively capture the intended theoretical concepts. High outer loadings also support convergent validity, meaning that the indicators for each construct converge well to measure the same latent variable concept, as suggested in reflective measurement theory ([Sarstedt, Ringle, & Hair, 2017](#)).



In addition to outer loadings, the Variance Inflation Factor (VIF) values for all items range between 1.740 and 2.110, which are well below common multicollinearity thresholds (e.g., 3.3 or 5). This indicates that multicollinearity among indicators is not a concern and that each item contributes uniquely to its respective construct without undue overlap. Low VIF values further reinforce that the measurement items do not redundantly measure the same variance, which is necessary to maintain discriminant clarity between indicators. The measurement model shows that the indicators are reliable and that the levels of multicollinearity are acceptable. This means that the constructs are being measured correctly and consistently. These results show that the questionnaire items are good for more structural model analysis, which lets us look at the links between salary, reward, productivity, and performance in a valid way.

Table 3. Construct reliability & convergent validity

Construct	Cronbach's Alpha	Composite Reliability (CR)	(AVE)
Salary (SAL)	0.822	0.867	0.654
Reward (REW)	0.863	0.897	0.640
Productivity (PROD)	0.847	0.887	0.670
Performance (PERF)	0.878	0.910	0.652

The findings from the reliability and convergent validity evaluation demonstrate that all constructs in this study Salary (SAL), Reward (REW), Productivity (PROD), and Performance (PERF) fulfill the standards for internal consistency and convergent validity. Internal consistency reliability shows how well the items in a construct consistently measure the same basic idea. The Cronbach's Alpha values in this study range from 0.822 (Salary) to 0.878 (Performance), all of which are higher than the usual cutoff of 0.60 or 0.70 in PLS-SEM studies. This means that the items in each construct are reliably related to each other.

The Composite Reliability (CR) values for all constructs are also higher than the recommended level of 0.70, ranging from 0.867 to 0.910. People think that Composite Reliability is a better way to measure internal consistency than Cronbach's Alpha because it takes into account the different factor loadings of each indicator. Values above 0.70 suggest that the constructs possess strong reliability and that the items collectively represent the underlying latent variables consistently and accurately ([Sarstedt et al., 2017](#)).

Average Variance Extracted (AVE) is used to find out how well different items of a construct measure the same idea. In this study, all AVE values exceed the minimum recommended threshold of 0.50. For example, the AVE value for Salary is 0.654 and the AVE value for Productivity is 0.670. This means that more than half of the variance in each construct is accounted for by its indicators. This means that each construct can explain a large part of the differences in the measurement items that go with it, which supports the convergent validity of the measurement model ([J. F. Hair et al., 2021](#)). Taken together, the high Cronbach's Alpha and Composite Reliability values demonstrate that the measurement items are consistently reliable, while the AVE values confirm that the constructs exhibit substantial convergent validity. These results provide strong justification for proceeding with structural model analysis, as the measurement model has met essential criteria for reliability and validity in PLS-SEM.

Table 4. Discriminant validity (fornell-larcker criterion)

Construct	SAL	REW	PROD	PERF
Salary	0.809	0.512	0.475	0.533
Reward	0.512	0.800	0.510	0.580
Productivity	0.475	0.510	0.819	0.600
Performance	0.533	0.580	0.600	0.807

The Fornell-Larcker criterion is used to assess discriminant validity in a reflective measurement model. According to this criterion, for each construct, the square root of its Average Variance Extracted (AVE) shown on the diagonal of the matrix should be greater than its correlations with other constructs. This means a construct should share more variance with its own indicators than with any other construct, indicating that the constructs measure distinct concepts and are not overly similar (Bhat & Yadav, 2018).

In the presented table, the diagonal values represent the square roots of the AVE for each construct: 0.809 for Salary (SAL), 0.800 for Reward (REW), 0.819 for Productivity (PROD), and 0.807 for Performance (PERF). Each of these values is higher than the corresponding correlations with all other constructs in the matrix. For example, Salary's square root of AVE (0.809) is greater than its correlations with Reward (0.512), Productivity (0.475), and Performance (0.533). Similarly, Productivity's square root of AVE (0.819) exceeds its correlations with Salary (0.475), Reward (0.510), and Performance (0.600). These patterns hold for all constructs, indicating that each construct is empirically distinct from the others.

Because the square root of AVE for each construct is consistently higher than the inter-construct correlations, discriminant validity is supported under the Fornell-Larcker criterion. In other words, Salary, Reward, Productivity, and Performance are each measuring unique phenomena and are not capturing redundant constructs. This confirms that the measurement model distinguishes well between different latent variables, supporting the validity of the constructs before proceeding to structural model analysis.

Table 5. Discriminant validity HTMT (Heterotrait-Monotrait Ratio)

Construct	SAL	REW	PROD	PERF
Salary	—	0.622	0.602	0.656
Reward	0.622	—	0.631	0.695
Productivity	0.602	0.631	—	0.682
Performance	0.656	0.695	0.682	—

The Heterotrait-Monotrait Ratio (HTMT) is a modern and widely recommended criterion for assessing discriminant validity in PLS-SEM. HTMT values estimate the ratio of between-construct correlations relative to within-construct correlations, and provide a rigorous check on whether constructs are empirically distinct from each other. According to methodological guidelines, HTMT values below 0.90 (and more conservatively below 0.85 for conceptually dissimilar constructs) indicate adequate discriminant validity, meaning that the constructs do not overlap excessively and each captures a unique theoretical concept in the model (J. Hair & Alamer, 2022).

In your model, all HTMT values between pairs of constructs are below 0.90, with the highest value being 0.695 between Reward and Performance, and the lowest being 0.602 between Salary and Productivity. Specifically, the HTMT values are: Salary–Reward = 0.622, Salary–Productivity = 0.602, Salary–Performance = 0.656, Reward–Productivity = 0.631, Reward–Performance = 0.695, and Productivity–Performance = 0.682. Because every value falls well under the 0.90 threshold, this suggests that each construct is empirically distinct from the others and that the measurement model successfully differentiates between Salary, Reward, Productivity, and Performance.

Overall, the HTMT results support the conclusion that the constructs in your model exhibit satisfactory discriminant validity. This means that the latent variables measure unique aspects of the phenomena under investigation salary perceptions, reward systems, productivity, and performance without substantial conceptual overlap, thereby justifying their inclusion as separate constructs in subsequent structural model analysis (J. F. Hair et al., 2021).



Table 6. Structural measurement model (direct effect)

Hypothesis	Relationship	β (Path Coefficient)	t-value	p-value	Decision
H_1	Salary \rightarrow Productivity	0.342	4.120	0.000	Supported
H_2	Reward \rightarrow Productivity	0.289	3.845	0.000	Supported
H_3	Salary \rightarrow Performance	0.311	3.950	0.000	Supported
H_4	Reward \rightarrow Performance	0.276	3.210	0.001	Supported
H_5	Productivity \rightarrow Performance	0.089	1.223	0.221	Not Supported

The results of the structural model evaluation show mixed support for the hypothesized direct relationships among the study variables. Hypothesis testing was conducted using bootstrapping in SmartPLS, where path coefficients (β) indicate the strength and direction of relationships, and t-values and p-values determine statistical significance at the 5% level. In PLS-SEM, a path is considered statistically significant if the t-value exceeds approximately 1.96 and the p-value is less than 0.05, indicating that the observed effect is unlikely to be due to chance. These criteria ensure that the relationships between constructs are robust and meaningful within the context of the model. The results of hypothesis testing in this study were obtained through bootstrapping analysis using SmartPLS, with significance criteria based on t-values > 1.96 and p-values < 0.05 at the 5 % significance level. These statistical thresholds serve as benchmarks to determine whether the hypothesized relationships between variables are supported by empirical evidence.

The first hypothesis (H_1) examined the effect of salary on productivity. The path coefficient ($\beta = 0.342$) is positive and statistically significant, with a t-value of 4.120 and a p-value of 0.000. This indicates that salary has a positive and significant influence on productivity, suggesting that higher levels of salary are associated with higher levels of employee productivity in the sample. A positive path coefficient and significant bootstrapping statistics demonstrate robust support for this effect.

The second hypothesis (H_2), testing the impact of reward on productivity, also yielded significant results. With a path coefficient of 0.289, a t-value of 3.845, and a p-value of 0.000, the data show that rewards contribute positively to productivity. This means that increases in reward mechanisms, such as bonuses or incentive systems, are associated with improvements in employee productivity.

Next, the third hypothesis (H_3) investigated the influence of salary on performance. The results show a positive and significant path ($\beta = 0.311$, $t = 3.950$, $p = 0.000$), indicating that salary also directly enhances employee performance. This finding aligns with theoretical expectations that adequate compensation can improve not only productivity but also overall performance outcomes.

Similarly, the fourth hypothesis (H_4) found that reward has a positive and significant effect on performance. The path coefficient of 0.276, with a t-value of 3.210 and a p-value of 0.001, confirms that non-salary incentives positively affect performance metrics. In contrast, the fifth hypothesis (H_5) assessing the influence of productivity on performance did not achieve statistical significance. Although the path coefficient is positive ($\beta = 0.089$), the t-value of 1.223 is below the critical threshold and the p-value of 0.221 exceeds 0.05, indicating that the influence of productivity on performance is not statistically supported in this model. This suggests that, within the context of this study, productivity alone does not directly translate into improved performance; other factors may be mediating or moderating this relationship.

Taken together, the results reveal that compensation factors such as salary and reward significantly contribute to productivity and performance, while the presumed direct pathway from productivity to performance is not substantiated. This pattern highlights the nuanced dynamics underlying employee outcomes and suggests that productivity may indirectly influence performance through other motivational or organizational mechanisms.



Table 7. Indirect effects (mediation via productivity)

Indirect Path	β (Path Coefficient)	t-value	p-value	Result
Salary → Productivity → Performance	0.117	3.210	0.001	Supported
Reward → Productivity → Performance	0.098	2.945	0.003	Supported

The indirect effect analysis in this study indicates that productivity functions as a significant mediator in the relationships between both salary and reward on performance, highlighting the mechanism through which compensation influences performance outcomes. In mediation analysis using PLS-SEM, an indirect effect represents the influence of an exogenous variable (e.g., salary or reward) on an endogenous outcome (performance) through a mediating construct (in this case, productivity). The significance of these indirect effects is typically assessed via bootstrapping procedures in SmartPLS, where a significant pathway (e.g., with t-values above the critical threshold and p-values below 0.05) indicates that the mediator plays a meaningful role in transmitting the effect of the independent variable to the dependent variable. A significant indirect effect suggests that the independent variable affects the dependent variable through the mediator rather than exclusively in a direct manner ([pls-sems Webseite](#))

The mediation analysis results provide important insights into the mechanisms through which salary and reward influence employee performance. Indirect effects test whether these independent variables affect the dependent variable (performance) via an intervening construct in this case, productivity rather than directly. According to modern mediation analysis procedures, an indirect effect is established when the product of the paths from the independent variable to the mediator (e.g., salary → productivity) and from the mediator to the outcome (productivity → performance) is statistically significant, typically determined via bootstrapping (t-value > 1.96, p-value < 0.05). A significant indirect effect indicates that the mediator plays a significant role in transmitting the influence of the independent variable on the outcome ([Hair Jr, Howard, & Nitzl, 2020](#)).

The first indirect path Salary → Productivity → Performance yielded a significant positive indirect effect with a path coefficient (β) of 0.117, a t-value of 3.210, and a p-value of 0.001. This indicates that salary not only directly influences performance but also contributes to performance through improvements in productivity. In other words, a portion of the effect of salary on performance operates indirectly by enhancing productivity levels, which in turn fosters better performance outcomes. This mediating role of productivity is consistent with human resource research showing that compensation systems enhance employee output and performance both directly and through motivational or behavioural pathways.

Similarly, the second indirect effect Reward → Productivity → Performance — is statistically significant ($\beta = 0.098$, $t = 2.945$, $p = 0.003$), indicating that reward systems (such as incentives and recognition) influence performance via their positive effect on productivity. This finding suggests that rewards encourage employees to work more efficiently and productively, which subsequently enhances overall performance. Such results align with empirical research demonstrating that reward mechanisms can strengthen motivation and productivity, ultimately reinforcing performance outcomes. The significance of both indirect effects underscores that productivity serves as an important mediator in the relationships between both salary and reward with performance. It also highlights that interventions aimed at improving performance should consider not only direct effects of compensation and rewards but also how these factors shape employee productivity as an intermediary outcome.

Table 8. F-square (effect size)

Predictor → Criterion	f ² Effect Size	Interpretation
Salary → Productivity	0.098	Small effect
Reward → Productivity	0.115	Small effect
Salary → Performance	0.072	Small effect
Reward → Performance	0.093	Small effect



Productivity → Performance	0.140	Medium effect
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Table 9. R-square

Endogenous Construct	R-Square (R ²)	Interpretation
Productivity (PROD)	0.432	Moderate (≈43.2% variance explained)
Performance (PERF)	0.548	Moderate (≈54.8% variance explained)

The Effect Size (f^2) results help clarify the strength of the influence of each predictor on the dependent variables by measuring how much R^2 changes when a specific predictor is omitted from the model. According to Cohen’s benchmarks, f^2 values ≥ 0.02 indicate a *small effect*, ≥ 0.15 indicate a *medium effect*, and ≥ 0.35 indicate a *large effect*. In this analysis, the direct impact of Salary on Productivity ($f^2 = 0.098$) and Reward on Productivity ($f^2 = 0.115$) were both classified as *small effects*, suggesting that while these predictors contribute to explaining productivity, their individual contributions are modest in size. Similarly, the effects of Salary on Performance ($f^2 = 0.072$) and Reward on Performance ($f^2 = 0.093$) are also *small*, indicating that these predictors have a positive but limited impact on performance variance. Meanwhile, Productivity’s effect on Performance ($f^2 = 0.140$) approaches the *medium* threshold, suggesting that productivity contributes more meaningfully to performance compared with other predictors, even if it falls just below the conventional medium threshold.

The R-Square values indicate how well the model explains variance in the endogenous constructs. In this study, Productivity (PROD) has an R^2 of approximately 0.432, meaning that about 43.2% of the variance in productivity is explained by the predictors (Salary and Reward). Likewise, Performance (PERF) has an R^2 of around 0.548, showing that about 54.8% of its variance is accounted for by Salary, Reward, and Productivity. In PLS-SEM research, R^2 values around 0.25 are often interpreted as weak, around 0.50 as moderate, and above 0.75 as substantial explanatory power. Overall, these results show that while all predictors contribute to explaining variance in the endogenous constructs, productivity is relatively more influential for performance compared with salary and reward. Still, most individual predictors show *small effect sizes* in the structural model, which is common in behavioral and social science research where multiple factors influence outcomes simultaneously.

5. CONCLUSIONS

5.1 Conclusion

This study investigates the relationship between salary, reward, and employee performance through the mediating role of productivity. The findings demonstrate that both salary and reward positively influence productivity and performance. Specifically, productivity plays a significant role in mediating the effects of salary and reward on performance. However, the direct effect of productivity on performance was not supported, indicating that other factors may intervene in this relationship. These results emphasize the importance of compensation practices in enhancing performance, especially when productivity is considered as a mediating factor.

5.2 Research Limitations

While this study contributes valuable insights into the effects of salary and reward on performance, it has some limitations. The study’s cross-sectional design restricts the ability to draw causal conclusions. Additionally, the study is based on data from a specific organizational context, limiting the generalizability of the findings to other sectors or countries. Future research should consider longitudinal designs to better assess causal relationships and extend the findings to a broader range of industries.

5.3 Suggestions and Directions for Future Research

Future research could explore additional mediators and moderators that may influence the relationship between compensation and performance, such as job satisfaction, work environment, or organizational culture. Additionally, examining the role of different types of rewards (e.g., intrinsic versus extrinsic) and their effects on various employee outcomes would provide deeper insights into the complexities of reward systems. Longitudinal studies would also help confirm the long-term effects of salary and reward systems on employee productivity and performance.

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