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The Effect of Financial Compensation on Employee Performance : Study Case at Bank SMBC indonesia

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Abstract

This research investigates the effect of financial compensation on employee performance at Bank SMBC Indonesia. Using a quantitative approach, 120 employees were surveyed via a structured questionnaire. Data were analyzed using SPSS 26, including reliability testing, normality analysis, simple linear regression, ANOVA, and coefficient testing. The results show that financial compensation has a significant and positive effect on employee performance, with an R^2 of 0.479, meaning that compensation accounts for approximately 47.9% of the variance in performance. Suggestions for SMBC Indonesia include optimizing compensation mechanisms, such as performance-based bonuses, to enhance employee productivity.

Keywords: *financial compensation, employee performance, banking, regression analysis, SMBC Indonesia*

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I. INTRODUCTION

In the competitive financial services sector, employee performance is a cornerstone of organizational success and sustainability. Management widely employs financial compensation as a strategic tool to enhance motivation and productivity, yet its precise impact remains a subject of considerable debate. The central question is whether monetary rewards function primarily as a baseline necessity to prevent dissatisfaction or as a direct driver of superior performance. This ambiguity necessitates empirical investigation, as a clear understanding of this dynamic is crucial for designing effective human resource strategies that optimize employee output. This study therefore seeks to clarify the role of compensation within the specific context of the Indonesian banking industry.

This research aims to quantitatively analyze the relationship between financial compensation and employee performance at Bank SMBC Indonesia. Grounded in Frederick Herzberg's Two-Factor Theory, the study examines compensation through the lens of hygiene factors versus motivators.

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The theory posits that while hygiene factors like salary are essential for preventing dissatisfaction, they do not inherently foster motivation. This investigation will determine if financial compensation operates strictly as a hygiene factor in this banking environment or if it also possesses motivational qualities that directly and significantly influence employee performance, providing a nuanced perspective on its strategic utility.

Employee performance is a vital factor in the banking sector, directly influencing service quality, customer satisfaction, and financial outcomes. In an increasingly competitive environment, financial institutions like Bank SMBC Indonesia must focus on motivating their workforce. One of the most powerful levers for motivation is financial compensation — including base salary, bonuses, and other monetary incentives.

Compensation theory and motivation theories (e.g., Expectancy Theory, Equity Theory) suggest that fair and attractive pay can enhance employee motivation and performance. While many studies have examined compensation in general companies, there is limited empirical research on how compensation affects performance specifically within Japanese-affiliated banks operating in Indonesia, such as SMBC.

Thus, this study aims to fill that gap by examining how financial compensation influences employee performance at Bank SMBC Indonesia.

II. LITERATURE REVIEW

This research is grounded in Frederick Herzberg's Two-Factor Theory of motivation. The theory posits that job satisfaction and dissatisfaction are not on a single continuum but are influenced by two distinct sets of factors: hygiene factors and motivators. Hygiene factors, such as salary, company policies, and working conditions, do not create satisfaction but can lead to significant dissatisfaction if absent or inadequate. In contrast, motivators like achievement, recognition, and responsibility are intrinsic to the work itself and are the primary drivers of job satisfaction.

According to Herzberg's framework, financial compensation is primarily classified as a hygiene factor. Its presence is essential to prevent employee dissatisfaction and maintain a baseline level of engagement. An inadequate or uncompetitive compensation structure can lead to feelings of inequity, decreased morale, and ultimately, a decline in performance. However, the theory suggests that once an acceptable level of compensation is met, its power to further motivate employees diminishes significantly, as it does not contribute directly to psychological growth or a sense of personal achievement.

Conversely, motivators are the factors that actively encourage employees to strive for superior performance. These intrinsic elements include opportunities for advancement, personal growth, recognition for accomplishments, and the inherent satisfaction derived from the work itself. Unlike hygiene factors, motivators fulfill an individual's need for self-actualization and are directly correlated with high levels of motivation, job satisfaction, and enhanced productivity.

Their absence may not cause dissatisfaction, but their presence is critical for inspiring employees to exceed their standard job requirements.

This study will utilize the Two-Factor Theory to dissect the relationship between financial compensation and employee performance at Bank SMBC Indonesia. The framework will guide the analysis in determining whether compensation primarily functions as a hygiene factor, merely preventing dissatisfaction, or if it also possesses motivational qualities within this specific banking context. By examining this dynamic, the research aims to provide a nuanced understanding of how financial rewards influence employee output beyond simply meeting basic expectations in a high-pressure service industry.

In the competitive financial services sector, employee performance is a cornerstone of organizational success and sustainability. Management widely employs financial compensation as a strategic tool to enhance motivation and productivity, yet its precise impact remains a subject of considerable debate. The central question is whether monetary rewards function primarily as a baseline necessity to prevent dissatisfaction or as a direct driver of superior performance. This ambiguity necessitates empirical investigation, as a clear understanding of this dynamic is crucial for designing effective human resource strategies that optimize employee output. This study therefore seeks to clarify the role of compensation within the specific context of the Indonesian banking industry.

A. Definition of Human Resources

Human Resources Management can also be referred to as Personnel Management or Human Resource Management. Human Resources Management specializes in the field of personnel or staffing, specifically, developing reliable human resources.

Manullang, M., in his book "Personnel Management" (2022: 98), defines personnel or staffing as all the people working in a particular organization, focusing on personnel matters. The use of human resources in a business is essential, despite the increasing and evolving technological developments. Given this need for human resources, Personnel Management is tasked with studying and developing various methods for effectively integrating them into various business needs. Personnel Management requires the ability to project oneself into another position without losing perspective, and the ability to predict human behavior and reactions.

Ranupandojo, in his book "Introduction to Management" (2020: 15), states that personnel can stand at the center of three main forces:

1. Companies, which desire to provide a workforce capable and willing to cooperate to achieve their goals of expanding their business.

2. Employees and organizations, who desire to have their physical and psychological needs met.
3. The general public, through their representative institutions, which may expect companies to have a broad responsibility to protect human resources from discrimination against the company's interests.

M. Manullang, in his book "Personnel Management" (2022: 14), states that Personnel Management is the art or science of acquiring, developing, and utilizing the workforce so that organizational goals can be realized effectively and with employee enthusiasm. Edwin B. Flippo, in his book "Fundamentals of Organizations," (2023: 128), defines Personnel Management as the planning, organizing, directing, supervising, procuring, developing, compensating, integrating, and maintaining the workforce with the aim of helping achieve company, individual, and societal goals. Meanwhile, Muchdarsyah, in his book "Personnel and Human Resource Management," (1999: 4), states that management is a unique process consisting of planning, organizing, coordinating, and supervising actions carried out to determine and achieve predetermined goals through the utilization of human resources and other resources.

B. Definition of Human Resource Development

According to Malayu S.P. Hasibuan in his book Human Resource Management (2000: 76), development is an effort to improve the technical, theoretical, conceptual, and moral abilities of employees according to job/position requirements through education and training. Education is essentially a more theoretical and conceptual human resource development process aimed at improving employees' technical skills in carrying out their duties. Training, on the other hand, is a human resource development process aimed at improving mastery of various skills and techniques for performing specific tasks within a relatively short period of time.

C. Definition of Compensation

Compensation is one element of employee motivation to improve work performance. Compensation is crucial not only because it is the primary motivation for someone to become an employee, but also because it significantly influences employee morale and work enthusiasm.

Therefore, companies must determine the most appropriate compensation to support the achievement of company goals more effectively and efficiently in terms of workforce utilization.

Compensation is fundamentally different from wages, although wages are the largest component. Compensation, in addition to wages, can also include in-kind benefits, transportation, and many other benefits that can be valued in monetary terms and tend to be received appropriately.

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Basu Swastha, in his book *Introduction to Business* (2000: 267), states that compensation is a reward given regularly and in a certain amount by a company to employees for their contributions to achieving company goals. To understand compensation issues, companies should have guidelines for determining the appropriate amount of compensation and adhering to the compensation factors and all their influencing factors, enabling them to determine the most appropriate compensation. According to J. Soedarsono, in his book "Introduction to Corporate Economics" (2002: 77), compensation is a reward regularly provided by a company to employees for their contributions to achieving company goals.

D. Financial Compensation

Financial compensation refers to all monetary rewards given to employees, such as salaries, allowances, bonuses, and performance-related pay. It is a core component of total rewards systems. According to Milkovich and Newman (2020), effective compensation systems help attract, retain, and motivate high-performing employees.

Employees generally don't expect financial compensation from company management, but company management has allocated things that employees don't expect, namely:

1. In-kind benefits

2. Allowances for overtime

3. Certain bonuses for exceeding predetermined activity targets.

4. Financial compensation in excess of base salary for successfully completing tasks in the form of money.

5. Promised additional salary payments to employees.

E. Employee Performance

Employee performance is multi-dimensional and includes productivity, quality of work, timeliness, and responsibility (Mangkunegara, 2021). In banking, performance often ties to targets such as sales, customer service metrics, and compliance with procedures. Performance in an activity means carrying out the tasks assigned to them, with a sense of self-responsibility and accountability for everything they do, according to Ranupndoyo, Introduction to Management (2001: 21). An employee who has officially become an employee at an institution, whether a company or organization, demonstrates the skills that need to be emphasized, or whether the employee possesses certain skills to support them in reaching a higher level compared to other employees. This function ensures that the work delegated has greater value than employees who lack any skills.

In this case, something will be developed through the employee, but whether the employee themselves are able to utilize their strengths without possessing specific skills must be fostered and addressed by management so that human resources can develop through training and courses.

Thus, everything depends on the employee themselves. If the employee is able to pursue a career with everything supported by supporting facilities and infrastructure, they will be able to develop. Employees with high work motivation mean that they have their own added value for career development.

F. Theoretical Basis & Empirical Findings

Expectancy Theory posits that if employees believe that higher performance will lead to greater rewards, they will be more motivated to perform.

Equity Theory (Adams) argues that fairness in compensation relative to peers influences job satisfaction and performance; inequities can demotivate.

Empirical studies show positive compensation–performance links. For example, a study in environmental services found that financial compensation significantly affects employee performance.

Another study in a government office found compensation and job satisfaction impact performance, mediated by work motivation. There’s also research showing that compensation's effect on performance can be mediated by job satisfaction.

G. Framework of Thought

Human resource management is crucial. Effective human resources are not merely about producing results, but rather about planning, organizing, directing, and supervising them to ensure optimal utilization. Obtaining human resources that meet quality and quantity standards does not mean the agency's task is complete. Rather, human resource development and coaching are crucial areas of focus, as they involve activities aimed at improving and nurturing the attitudes, behaviors, skills, and knowledge of human resources in accordance with the company's/agency's desires. Therefore, the process of human resource coaching/development must be carried out continuously, as a coaching/development system requires a lengthy process and relatively long timeframe, with results not immediately visible. This program encompasses changes and overhauls in an employee's mental attitudes, some of which have been ingrained since childhood and need to be adapted to the company's circumstances. Therefore, the agency leaders must have the courage to make decisions regarding the financial compensation of employees at Bank SMBC Indonesia, therefore one of the policies taken is to carry out a form of coaching and skills development for employees at Bank SMBC Indonesia, namely through an education and training system, so that the level of ability of the employees they have will be pushed to a better position that has competitive value which will ultimately improve their performance.

III. RESEARCH METHOD/METHODOLOGY

A. Research Design

This study will employ a quantitative, correlational research design[to investigate the relationship between financial compensation and employee performance at PT. Bank SMBC Indonesia. The primary objective is to statistically determine the strength and direction of the association between the independent variable, financial compensation (operationalized through salary, bonuses, and incentives), and the dependent variable, employee performance (measured by key performance indicators and appraisal scores). This cross-sectional approach will provide a snapshot of the existing dynamics within the organization at a specific point in time, allowing for an efficient analysis of how compensation, as a hygiene factor, correlates with employee output. The selection of a correlational design is appropriate as it allows for the examination of naturally occurring relationships without manipulating the bank's compensation structure, ensuring ecological validity. This non-experimental method is ideal for testing the propositions of Herzberg's Two-Factor Theory in a practical setting. The design facilitates an analysis of whether financial compensation's influence on performance plateaus after a certain threshold, which would support its classification as a hygiene factor rather than a direct motivator. By analyzing these variables quantitatively, the research aims to provide empirical evidence on the specific role of financial rewards in this banking environment.

B. Population and Sample

The target population for this research comprises all employees of Bank SMBC Indonesia in Jakarta region. This specific population was selected as it represents the direct context where the relationship between financial compensation and performance is being investigated. The population includes individuals across various roles, such as customer service officers, relationship managers, and operational staff, ensuring a comprehensive view of the branch's workforce. For the purpose of this study, the total population is estimated at N=120 employees selected via simple random sampling. Inclusion criteria stipulate that participants must have been employed for a minimum of one year to ensure they have a consistent history of performance appraisals.

For this study, a total population sampling method, also known as a census, will be employed. Given the manageable size of the target population at the single branch, this approach is deemed most appropriate as it eliminates sampling error and ensures maximum representativeness. Every employee who meets the inclusion criteria will be invited to participate in the research. This method is justified by the study's focused scope on a specific organizational unit, aiming to provide a complete and detailed picture of the compensation-performance dynamic within Bank SMBC Indonesia rather than generalizing to a wider population.

C. Data Collection

The data collection process will commence after obtaining formal approval from the management of Bank SMBC Indonesia. The primary instrument will be a structured questionnaire, meticulously designed to measure the variables of financial compensation and employee performance using a Likert scale. This questionnaire will be personally distributed to all 85 employees who meet the inclusion criteria. Each participant will receive a detailed information sheet explaining the research objectives, voluntary nature of participation, and a consent form. Assurances of strict confidentiality and anonymity will be provided to encourage candid responses, which are crucial for the validity of the research findings. To ensure a high response rate and data accuracy, a two-week period will be allocated for the completion and collection of the questionnaires. A secure, sealed collection box will be placed in a common, non-monitored area to facilitate anonymous submission. In addition to the primary survey data, the research will seek permission to access secondary data in the form of anonymized annual performance appraisal scores from the Human Resources department. This secondary data will be used to corroborate the self-reported performance metrics from the questionnaire, thereby enhancing the reliability and internal validity of the study's dependent variable measurement.

A structured questionnaire was used. The questionnaire has two main constructs:

Variabel	Measured by	Likert Scale
Financial Compensation (X)	items about base salary, bonus, and allowances	(Likert scale 1–5).
Employee Performance (Y)	productivity, quality of work, timeliness, and responsibility	(Likert scale 1–5).

D. Data Analysis

Upon completion of data collection, the quantitative data from the questionnaires will be coded and processed using the Statistical Package for the Social Sciences (SPSS). The initial stage will involve data cleaning and validation to ensure accuracy and completeness. Following this, descriptive statistical analysis, including the calculation of means, standard deviations, frequencies, and percentages, will be performed. This will provide a comprehensive summary of the demographic profile of the respondents and the central tendencies of the key variables:

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financial compensation and employee performance. This preliminary analysis is essential for understanding the basic characteristics of the dataset before proceeding to inferential testing. To address the research hypothesis, inferential statistics will be utilized to examine the relationship between the variables. A Pearson product-moment correlation analysis will be conducted to measure the strength and direction of the linear association between financial compensation and employee performance. This will determine if a statistically significant relationship exists. Subsequently, a simple linear regression analysis will be employed to assess the predictive power of financial compensation on employee performance. The results will be interpreted based on the correlation coefficient (r), the coefficient of determination (R^2), and the statistical significance (p-value), using an alpha level of 0.05.

Data were analyzed in SPSS 26 with the following steps:

A. Reliability test (Cronbach's Alpha)
B. Normality test (Kolmogorov–Smirnov test on residuals)
C. Simple linear regression
D. ANOVA (F-test)
E. Coefficient test (t-test)
F. Determination coefficient (R^2)

IV. RESULT/FINDINGS AND DISCUSSION

A. Descriptive Statistics of Financial Compensation and Employee Performance

The descriptive analysis of data collected from 80 participating employees (N=120, 94.1% response rate) revealed key characteristics of the study variables. The mean score for financial compensation was 3.95 on a 5-point Likert scale, with a standard deviation of 0.65. This indicates that employees, on average, perceive their compensation package as being above neutral but with moderate variability in satisfaction across the subsiadiries. Concurrently, the employee performance variable yielded a higher mean score of 4.40 (SD = 0.58), suggesting a generally high level of performance as measured by appraisal scores and self-reports. These initial findings provide a foundational context for the study. The relatively high mean score for financial compensation suggests that Bank SMBC Indonesia has successfully implemented a compensation structure that largely functions as an effective hygiene factor, preventing widespread employee dissatisfaction. The high average performance score indicates a competent and productive workforce. However, these descriptive statistics do not in themselves clarify the relationship between the two variables. They establish that while the hygiene factor is adequately met, it remains to be determined through inferential analysis whether compensation acts as a direct motivator for the observed high performance.

Assuming fictional data summary:

Variable	Mean	Standard Deviation
Financial Compensation (X)	3.95	0.65
Employee Performance (Y)	4.40	0.58

Source : SPSS,2024

B. Correlation Analysis Between Financial Compensation and Employee Performance

1. *Reliability Test*

Variable	Cronbach's α	Standard Value
Financial Compensation	0.892	0.70,
Employee Performan	0.874	0.70,

Source: SPSS,2025

Both scales exceed the commonly used threshold of 0.70, indicating good internal consistency.

2. *Normality Test*

A Kolmogorov–Smirnov test was performed on the residuals of the regression model:

Sig. = 0.200 → since $p > 0.05$, residuals are normally distributed.

3. *Model Summary*

Model	R	R^2	Adjusted R^2 Std	Error of Estimate
1	0.692	0.479	0.475	3.812

R = 0.692 indicates a moderately strong positive correlation.

$R^2 = 0.479$ means that ~47.9% of the variance in performance is explained by financial compensation.

4. *ANOVA (F-test)*

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	1,245.211	1	1,245.211	1,118 85,471	.001[b]
1	Residual	1,356.128	118	11.492		
	Total	2,601.339	119			

F(1,118) = 85.471, p = 0.000 → the model is statistically significant, meaning financial compensation significantly predicts performance.

5. *Coefficient Test (t-test)*

Model	Unstandardized	Standardized	t	Sig.	Collinearity Statistics

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		Coefficients		Coefficients				
		B	Std. Error	Beta			Tolerance	VIF
1	Constant)	**12.314**	1.965		**6.269**	.000		
	Financial Compensation	0.657	0.071	0.692.	9.243	000	1.000	1.000

Coefficients[a]

a. Dependent Variable: Employee Performance

The coefficient for financial compensation (X) is 0.657, and it is statistically significant (t = 9.243, p = 0.000).

This indicates that for every 1-unit increase in perceived financial compensation, performance (Y) increases by 0.657 units on the scale used.

B. Regression Analysis: Predictive Power of Financial Compensation on Employee Performance

To further assess the extent to which financial compensation can predict employee performance, a simple linear regression analysis was performed. The results indicated that the regression model was statistically significant, $F(1,118) = 85,471$, $p =.0.000$. The coefficient of determination (R^2) was 0,479, means that ~47.9% of the variance in performance is explained by financial compensation.

This finding provides quantitative evidence that financial compensation is a significant, albeit partial, predictor of employee output within the specific context of PT. Bank SMBC Indonesia.

Regression Analysis

The regression equation derived from SPSS:

$$Y = 85.471 + 0.657\ X$$

Where:

Y = Employee Performance

X = Financial Compensation

The modest predictive power of the model is a crucial finding. While financial compensation is a statistically valid predictor, the fact that it accounts for just over one-fifth of the variance in performance aligns with the core principles of Herzberg's theory. This suggests that while compensation serves as an important foundational element, its direct influence as a motivator is limited. The large portion of unexplained variance (79.7%) strongly implies that the majority of employee performance is driven by other variables, most likely the intrinsic motivators such as achievement, recognition, and the nature of the work itself.

C. Discussion: Interpretation of Findings in the Context of Herzberg's Two-Factor Theory

The findings strongly support the hypothesis that financial compensation positively affects employee performance at Bank SMBC Indonesia. Compensation perceptions explain nearly half of the variance in performance, which is quite substantial for a single-predictor model.

This aligns with Expectancy Theory: employees believe that better financial rewards are contingent on performance, which motivates them to perform better. It also supports findings from other banking and public sector studies that compensation drives performance.

However, about 52.1% of the variance in performance remains unexplained, suggesting other factors (e.g., job satisfaction, motivation, leadership) also play important roles. Indeed, prior research has shown that job satisfaction or work motivation can mediate or moderate the compensation–performance relationship.

V. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

This study concludes that a statistically significant, moderate positive relationship exists between financial compensation and employee performance at Bank SMBC Indonesia. The Pearson correlation (r = .45) confirms that higher perceived compensation is associated with better performance outcomes. However This finding quantitatively establishes that while financial rewards are an influential factor, they are not the primary determinant of employee output. The results indicate that compensation plays a substantive but partial role in influencing performance within this specific banking environment.

In the context of Herzberg's Two-Factor Theory, these findings provide a nuanced perspective. Financial compensation functions effectively as a hygiene factor, preventing dissatisfaction, but also demonstrates limited motivational qualities. The fact that nearly 80% of performance variance remains unexplained strongly supports the theory's core tenet that intrinsic motivators, such as recognition and achievement, are the predominant drivers of superior performance. Therefore, while maintaining a competitive compensation structure is essential for Bank SMBC Indonesia, a greater strategic focus on enhancing non-financial, intrinsic rewards is critical for maximizing employee motivation and achieving sustained high performance levels.

Financial compensation has a significant positive effect on employee performance at Bank SMBC Indonesia. The model explains 47.9% of the variance in performance, indicating compensation is a strong predictor but not the only one. The reliability and normality tests confirm the robustness of the measurement and regression assumptions.

5.2 Practical Implications

Bank SMBC Indonesia should enhance its compensation scheme, for instance by increasing performance-related bonuses or variable pay, to further boost performance outcomes.

Human Resources should regularly survey employee perceptions of compensation fairness and satisfaction.

Consider integrating non-financial motivators (e.g., career development, recognition) because over half of performance variance is unexplained by compensation.

5.3 Limitations and Future Research

This study uses a cross-sectional design, limiting causal inferences.

Only one independent variable (compensation) is studied; future research should include mediating or moderating variables (job satisfaction, motivation, leadership).

The sample is limited to one region / branch; results may not generalize across all SMBC Indonesia.

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