

Effects of Compensation on Employees' Performance in Nepalese Commercial Banks

Madan Kumar Luitel¹ & Krishna Humagain²

¹Principal Author

Lecturer

Faculty of Management

Nepal Commerce Campus, Kathmandu, TU, Nepal

Email: madanluitel77@gmail.com

²Co-author

Dissertation Research Scholar

Faculty of Management

Nepal Commerce Campus, Kathmandu, TU, Nepal

Email: pvpkrishna2015@gmail.com

<https://doi.org/10.3126/dristikon.v15i1.77130>

Abstract

This study analyzes the impact of compensation and benefits on employees' performance in Nepalese commercial Bank. Employee performance is an important driver of organizational success, and compensation plays a pivotal role in motivating employees. The primary objectives of this research were to determine the compensation and benefit factors influencing employee performance, to examine the relationship between these factors and employee performance, and to assess the effect of specific compensation components, such as overtime allowance, promotion, and social security, on performance. The study employed a quantitative research methodology, using a structured questionnaire to collect data from 153 employees of commercial Banks. The collected data were analyzed using descriptive statistics, correlation analysis, and regression analysis. The findings reveal that compensation factors such as salary, overtime allowance, and social security have a significant positive impact on employee performance. Furthermore, career advancement opportunities, particularly promotions, were found to be a key motivator for improving employee performance. The study concludes that a well-designed compensation package that includes both financial and non-financial benefits can significantly enhance employee motivation and performance. Providing clear career advancement opportunities and a comprehensive benefits package can improve employee satisfaction, performance, and overall organizational effectiveness. Based on these findings, the study suggests that commercial bank and similar organizations should review and enhance their compensation structures to ensure they align with employee needs and industry standards.

Keywords: compensation, employee benefits, employee performance, overtime allowance, promotion and social security

Introduction

Present day human resource (HR) effort is not only concerned with traditional activities of recruitment and selection, training and development but its scope has been widened to many new and distinguished areas (Mahapatro, 2021). Typically, most employees respond to increases in pay and benefits with a positive and more productive attitude (Sharma & Jaisawal, 2018). However, the opposite is true as well. Sometimes, employees only notice rewards of a salary increase the day the increase is communicated to them, and the day they receive the first paycheck that includes the salary increase. The best people are most often drawn to the companies that pay the most and offer the best opportunity for advancement.

There are still some people in the work force that have a very strong work ethic, and continue to stay motivated regardless of the compensation package provided. On the other hand, there are also employees that need constant increases in pay, better benefits, more work-life balance, etc., in order to perform well on a consistent basis. By implementing a contribution-based social security fund, the Nepali government has taken the first step toward providing social security to the vast majority of its inhabitants. Four social security programs are included in the package offered by the SSF dependent family protection scheme, medical treatment, health and maternity protection scheme, accident and disability protection scheme, and old age protection scheme. This kind of new program's execution cannot be based only on the laws that govern it; it must also take into account the target population's awareness level and perceptions (Rijal, 2020). Organizations and institutions all over the world need the services of other individuals to make it productive. One of the tools companies use to attract, retain and motivate its people is compensation management (Reddy, 2020). Payment, reward, advantage, opportunity are all meanings of compensation and in retaining key executives who can help a company achieve growth and prosperity, all these definitions must come into play.

Statement of the Problems

The study includes the various problems in the compensation on employees' performance in Nepalese commercial banks. Study cover issues that; What are the compensation and benefit factors that influence employee's performance? Does there any relationship between employee compensation and benefit factors with employee's performance? and How overtime allowance, promotion and social security effect employee's performance in Nepalese commercial banks?

Objectives of the Study

The primary purposes of this study are to determine the compensation and benefit factors that influence employee's performance in Nepalese commercial banks and to examine the relationship between employee compensation and benefit factors with employee's

performance and to measure the effect of overtime allowance, promotion and social security on employee's performance in Nepalese commercial banks.

Hypotheses

The study formulates the hypothesized based on review they are;

H₁: There is a significant relationship between overtime allowance with employee performance.

H₂: There is significant relationship between promotion with employee's performance.

H₃: There is significant relationship between social security benefit with employee's performance.

Significance of the Study

The remuneration received by an employee in return for their contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing monetary and non-monetary benefits to employees. Compensation weighs significantly in job performance. Performance management starts with discussing the job duties, responsibilities and expectations with candidates during the recruitment and selection process. It was difficult to carry out research covering the whole firm hence the work is limited to compensation and its impact in employee's performance. Furthermore, the study focuses only on the effect of compensation in employee's performance. It is designed to cover the public sector. The study is to investigate work compensation and the employee performance in the public sector with particular reference to commercial bank of Nepal. Academically, this study constitutes and contributes in the field of increasing compensation and the employee performance in the public sector.

Review of Literature

This section goes into detail about different aspects of salary and how it affects how well employees. It talks about what compensation means and how it works. Compensation includes any direct or indirect payments to employees, such as wages, bonuses, stock and benefits (Gerhart & Milkovich, 1992). Cascio (1995) defined that the compensation includes direct cash payments and indirect payments in form of employees benefits and incentives to motivate employees to strive for higher levels of productivity. Compensation, including social security benefits, can address basic needs and provide a sense of security, contributing to a supportive work environment that fosters higher-level needs and, consequently, improved performance (Gambrel & Cianci, 2003). An extensive literature also documents the importance of pay in terms of how it affects what people do (Rynes et al., 2004). These forms of compensation, when taken together, contribute to the satisfaction, motivation and retention of employees (Dixon & Bäckman, 2013). Benefits such as health insurance, retirement plans, paid leave, and other perks that promote the general well-being of employees but are not directly related to their productivity are examples of indirect compensation, on the other hand, direct pay is directly tied to an employee's total output (Milkovich et al., 2014).

Direct Compensation: A variety of monetary payments, including salaries, wages, overtime pay, commissions, and incentives based on performance are included in the category of direct compensation. Examples of these types of rewards include bonuses and commissions. It has a direct impact on the levels of motivation and engagement that employees have (Harvey, 2013). The compensation is a substitute word of wages and salaries and it has recently originated. The literature of wages and salaries are enormous but it considers the issues from a legal viewpoint. However, wages have now become very significant as a cost factor (Bhattacharyya 2009). Furthermore, salary is a vital component in both the process of recruiting and keeping top people (Gerhart, 2023).

Indirect Compensations called the benefits that are not monetary in nature and that contribute to the overall well-being of employees but are not directly related to their performance. Health insurance, retirement plans, paid time off, employee assistance programs, childcare services, and wellness programs are some examples of the services that may fall under this category of benefits (Harvey, 2013). Compliance also includes conducting frequent audits and reviews of pay policies in order to guarantee that legal standards are being adhered to in an ongoing manner (Opsahl & Dunnette, 1996). It is important for employees to have a comprehensive grasp of the factors that go into determining their compensation, including the procedures for determining wage increases, incentives, and promotions (Schachter, 1984). These non-monetary awards make a substantial contribution to the general well-being and contentment of the workforce for the organization (Shevchenko et al., 2019). In conclusion, it is essential to manage compensation systems strategically and to analyze them on a constant basis. This includes findings that higher pay levels substantially reduce turnover (Gerhart, 2023).

Regulatory Compliance and Governance: Regulatory bodies such as the Nepal Rastra Bank (NRB) in Nepal, by enforcing such regulations, banks are encouraged to adopt compensation practices that align with sustainable growth and financial stability (Phelan & Clement, 2010). Performance-Based Compensation (Khan et al., 2011), deferred compensation (Husni et al., 2020), Risk and compliance incentives (Dill, 2019), equity compensation (Frye, 2004), Transparency and disclosure (Walker, 2004) are considered. The quality and amount of work output, adherence to established standards, and the overall impact that workers have on the success of the bank are all reflected in this information (Ahmed et al., 2013). High-performing employees not only excel in their individual roles but also inspire and motivate their peers, contributing to a culture of excellence and continuous improvement within the organization (Ahmed et al., 2013). The establishment of policies on remuneration for financial organizations is one of its primary regulatory tasks (Gyawali, 2023). Alignment with risk management, performance-based incentives, Compensation that is deferred and compliance with governance and oversight (NRB, 2021).

The compensation policies set by the Government of Nepal play a crucial role in shaping the employment landscape across various sectors, including the banking industry. Minimum Wage Regulations: Employers are required to comply with these minimum wage regulations, ensuring that even entry-level and non-executive positions receive adequate compensation (Sakha, 2022). Equal pay for equal work, this policy aims to eliminate wage disparities and promote fairness in compensation practices within the public and private sectors, including banks (Chapagain, 2020), Benefits and allowances (Kanal, 2022), Social security and retirement benefits (Kanal, 2022), Labor dispute resolution (Aryal & Dahal, 2018) and Compliance and monitoring (Jeffery, 2017). Economic considerations and public sector compensation: Government of Nepal's policies on compensation are designed to ensure fair, equitable and legally compliant remuneration practices (Mishra et al., 2015). Effective compensation practices involve a structured approach to setting competitive salary ranges, offering performance-based bonuses and providing comprehensive benefits packages, such as health insurance, retirement plans, and paid leave (Martocchio, 2011). The social security system in Nepal aims to provide financial protection and support to workers and their dependents in various life situations. Provident fund, citizenship saving scheme (Khanal, 2014) and Gratuity old age allowance (Acharya, 2022).

This section also includes review of theories related to the study from different scholars' sites: Expectancy theory, proposed by Victor Vroom, suggests that individuals are motivated to act in a certain way based on their belief that their efforts will lead to a desired outcome and that the outcome is valued. In the context of compensation, employees are likely to perform better if they believe that their hard work and performance will result in tangible rewards such as overtime allowance, promotion, and social security benefits (Wekesa & Nyaroo, 2013). Equity theory (Adams & Freedman, 1976). Overtime allowance, and promotion can be seen as mechanisms to align the goals of the employee with the goals of the organization, promoting better performance (Shapiro, 2005).

Employee performance is influenced by a myriad of factors that interplay to determine how effectively individuals execute their job responsibilities. One of the most significant factors is the compensation and reward system. Financial incentives such as bonuses, overtime pay, and performance-based rewards are directly linked to increased effort and productivity. Additionally, non-financial rewards like recognition, career development opportunities, and work-life balance initiatives also play a vital role in enhancing employee morale and performance (Arifani & Susanti, 2020). Supportive leadership and a collaborative atmosphere contribute to a sense of belonging and motivation among employees (Arifani & Susanti, 2020). Job design should align with the employees' skills and interests, providing them with challenging yet achievable tasks that promote job satisfaction and performance (Arifani & Susanti, 2020). Good management practices, such as setting realistic goals, providing regular feedback, and recognizing achievements, encourage high performance and continuous

improvement (Arifani & Susanti, 2020). Engaged employees, who are emotionally and intellectually committed to their work, tend to perform better, exhibit higher productivity, and contribute to the overall success of the organization (Nguyen et al., 2020). The banking sector operates within a unique framework of regulations and policies that significantly influence compensation practices.

The empirical review shed light the importance of this study. Santuryan et al. (2023) indicate that compensation has a positive and significant effect on employee performance, mutations also exhibit a positive and significant impact on employee performance, and work discipline has a positive and significant effect on employee performance. Martin and Feinberg (2023) explored the intricate relationship between work discipline, work communication, and the performance of medical employees at Serdang Bedagai Hospital Centre, Sultan Sulaiman Hospital. Thakur and Lamsal (2023) suggest that employee performance following a merger or acquisition is influenced by factors such as work culture, training and performance evaluation, transfers and promotions, and compensation and benefits. In order to achieve a successful merger or acquisition, it is imperative that banks engage in effective communication with their employees and offer comprehensive training programs to facilitate their adaptation to cultural and structural transformations. Pokharel and Shrestha (2022) shows a significant linear, positive, and moderate relationship between independent variables namely, saving and investment, benefits scheme, and work environment, and dependent variable namely, employee view toward EPF scheme. Hajiali et al. (2022) suggest that employee competence positively influences performance but in a statistically insignificant manner, underscoring the importance of addressing competency development for enhanced employee performance. Alansari and Javed (2021) reveal a positive correlation between employee compensation and their performance. Prasetyo et al. (2021) concludes that both compensation and discipline significantly influence the performance of employees in publicly-owned regional companies, with discipline being identified as the most dominant factor. Sitopu et al. (2021) disclose that motivation, work discipline, and compensation significantly impact employee performance, emphasizing the importance of factors such as discipline in achieving optimal performance. Rosalia et al. (2020) explored the intricate relationships among compensation, motivation, job satisfaction, and employee performance at SMK Medika Samarinda in Indonesia. Bagis et al. (2020) concluded that compensation does have a significant indirect effect on employee performance, and this influence occurs through the mediation of the spirit of work. Millea (2020) reports observational prove around the bi-directional connection amid employee's benefits and productivity, in specific putting in the nature of the benefits setting prepare in various nations. Efendi et al. (2020) reveal positive and significant effects: work discipline and compensation influence employee performance directly, while work motivation acts as a mediator, enhancing the impact of both work discipline and compensation on employee performance.

Rinny et al. (2020) concluded that compensation, job promotions, and job satisfaction collectively have a significant impact on employee performance. Neupane and Risal (2020) found most significant factor as job security, years of experience, social status and financial status. The study concludes that the job security, experience and salary and allowance are the building block of job satisfaction for junior level bank employees in Kathmandu valley. Shrestha and Parajuli (2020) indicated a significant correlation between the satisfaction levels of pay, benefits, raises, and salary administration, and the work performance of employees in the banking sector of Nepal.

Arif et al. (2019) indicated a positive and significant partial effect of compensation on employee performance and a similarly positive and significant partial effect of work discipline on employee performance. Sutoro (2019) indicated that compensation has a positive and significant impact on the performance, Widagdo et al. (2018) concluded that commitment serves as an intervening variable, exerting an indirect influence on the relationship between compensation, motivation, and employee performance. Rahmawathi and Supartha (2018), Jean et al. (2017), Darma and Supriyanto (2017), Akter and Husain (2016), Setiadi et al. (2016) and Wekesa and Nyaroo (2013) found that fair compensation significantly affects the performance. The study limits the research gap. Even though a lot of research has been done on the links between different factors and employee performance, there are still big gaps in the study that need to be filled. The studies that were found give useful information about how pay, job satisfaction, discipline, training, and other things affect each other. But there are some holes. Scholars have looked at individual factors like pay, job happiness, and training, but they haven't looked into how these factors affect employee performance when looked at together (Rinny et al., 2020; Alansari & Javed, 2021; Prasetyo et al., 2021). Future study could look into how different variables interact with each other to get a better picture of how they all affect each other. The studies mostly look at certain fields or areas, like Nepal's banking sector, Saudi Arabia's small and medium-sized businesses, or Indonesia's regional public bodies (Pradhan & Shrestha, 2022; Santuryan et al., 2023; Rivaldo & Nabella, 2022).

Research Materials and Methods

The study followed the descriptive and causal-comparative study designs. During the descriptive study design, detailed and organized analyses were carried out on the employees' pay structures and work performance. The study used primary data to get numerical information about the current pay practices, such as the overtime allowance, promotion requirements, and social security benefits. Performance metrics and evaluations were gathered to give a full picture of how well workers were doing their jobs. Descriptive statistics; means and frequencies, were used to summaries and show the data. During the causal-comparative research design; the study plan to find links or causal relationships between pay factors and employee success. Groups that had been exposed to different amounts of the independent

variables (overtime pay, shift pay, promotion, and social security) were compared. Statistical tests, like t-tests and analysis of variance (ANOVA), were used to see if changes in pay were linked to big differences in how well employees did their jobs. The study includes the respondents from the employees of Nepalese commercial bank specifically Kathmandu valley. The use of a non-probability and convenience-based sampling design with a total of 153 participants was driven by practical considerations, such as accessibility and the feasibility of data collection within a specific timeframe. The chosen sample size is adequate to identify trends and patterns within this employee group, offering meaningful findings that contribute to understanding how compensation influences performance. The study sought to gather varied opinions among these staff levels in order to establish a representative sample that reflected the larger workforce. To choose participants, possible respondents were contacted, and those who exhibited interest and agreed to participate were included in the sample. The primary data had been obtained through structured questionnaires designed to gather responses on various aspects of compensation, including overtime allowance, promotion, social security, and employee performance. Required data had been collected from google form of low-level and mid-level employees. Focusing on their perceptions of compensation elements and their impact on performance. The study relied on firsthand information from the targeted employee population to ensure the data's relevance and accuracy. The instrument chosen for data collection was a questionnaire, designed to gather quantitative responses from participants. Each Likert scale statement presented a range of responses, allowing participants to express their agreement or disagreement with the provided statements on a scale, typically ranging from 1 to 5 (1 for 'strongly disagree', and 5 for 'strongly agree'). The questionnaire was a structured tool that ensured uniformity in data collection, enabling a systematic analysis of employees' perceptions and attitudes towards the compensation elements and their perceived impact on performance. Reliability examines the study tool's stability and consistency.

Table 1*Reliability and Validity*

S/N	Variables	No. of Questions	Cronbach Alpha
1	Overtime Allowance	6	.747
3	Promotion	5	.763
4	Social Security	4	.751
5	Employee Performance	8	.812
Total		23	.768

Note. Survey 2024: SPSS Output

Generally, a Cronbach's (1951) Alpha value above 0.7 is considered acceptable, indicating that the items effectively measure the underlying construct. Cronbach's Alpha for all 23 items combined is 0.768, affirming that the variables in the study exhibit adequate internal

reliability. In this study, the research framework acts as the conceptual backbone, precisely designed to lead the examination into the dynamic interplay between pay aspects and employee performance.

Research Framework

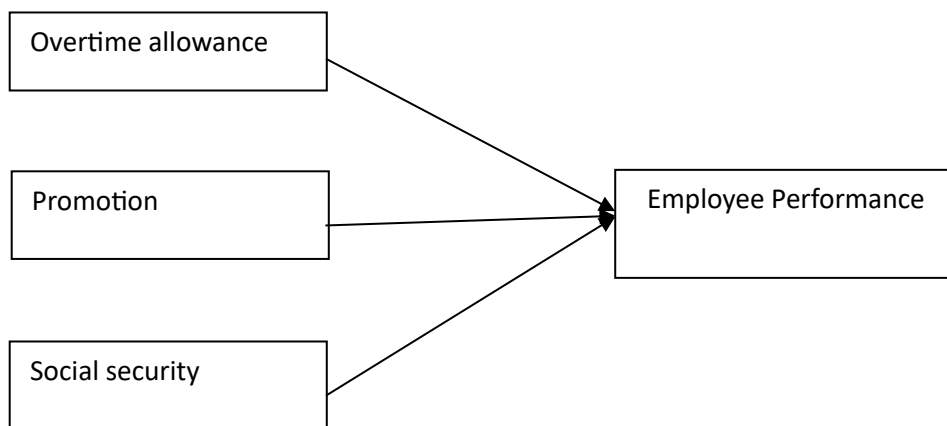
The study develops the research framework based on the above review.

Figure 1

Research Framework

Independent Variables

Dependent Variable



Source. Afriyie et al. (2020)

The study includes independent variables as overtime allowance, promotion and social security. Overtime allowance refers to the additional monetary compensation provided to employees for work performed beyond their regular working hours. This financial incentive acknowledges and compensates employees for the extra time and effort invested in fulfilling their professional responsibilities outside of standard work schedules (Afriyie et al., 2020). Promotion involves the elevation of an employee to a higher job position within the organizational hierarchy. It is a recognition and advancement strategy based on an individual's demonstrated skills, performance, and contributions to the organization. Promotions often come with increased responsibilities, authority, and salary (Afriyie et al., 2020). Social Security: Social security encompasses a range of benefits provided by the employer to ensure the well-being and security of employees. This may include health insurance, retirement plans, disability benefits, and other forms of support aimed at safeguarding the financial and physical welfare of the workforce (Afriyie et al., 2020).

Employee performance refers to the effectiveness and efficiency with which an individual fulfills their job responsibilities and contributes to organizational goals. It encompasses the quality of work, achievement of targets, adherence to company values, and overall contributions that align with the expectations and standards set by the organization.

(Afriyie et al., 2020). It encompasses a wide range of attributes and behaviors that collectively define an employee's value within the workplace. Performance can be measures as individuals' skills based on communication skills, teamwork, problem-solving abilities and adaptability.

Results and Discussion

This demographic analysis presents the study's participant pool by taking into account important variables including age, gender, educational attainment and Position in Bank.

Table 2

Respondent Profile

Dimensions	Frequency	Percentage
Gender		
Male	107	69.9
Female	46	30.1
Total	153	100.0
Age		
18 - 25 Years	22	14.4
26 -40 Years	115	75.2
41-50 Years	16	10.5
Total	153	100.0
Academic qualification		
Upto Intermediate	20	13.1
Bachelors	37	24.2
Masters or above	96	62.7
Total	153	100.0
Position at Bank		
Officer	24	16.0
Junior Officer	46	30.0
Assistant	83	54.0
Total	153	100.0

Source. Survey 2024

Table 2 presents the demographic details of the study. The majority of the respondents were males i.e. 69.90% and female is 30.1%. further important variables also present in above table.

Table 3 presents the descriptive statistics for overtime allowance, including six statements evaluated by respondents. Following tables represent the status of compensation practices based on overtime allowances and perceptions of respondents.

Table 3*Descriptive Statistics of Overtime Allowance*

Code	Statements	Mean	Std. Deviation
OTA1	The overtime allowance provided by my bank adequately reflects the extra effort.	3.21	1.179
OTA2	I am Satisfied with the overtime allowance.	3.45	1.308
OTA3	The process of distributing overtime allowance is transparent and unbiased.	3.54	1.256
OTA4	Overtime allowance has a positive impact on my overall job.	3.46	1.106
OTA5	I am motivated to put in extra effort.	3.55	1.158
OTA6	I feel that the overtime allowance policy at my bank is effective.	3.46	.987

Source. Survey 2024

Table 3 presents the mean value is more than 3.00 in all statements and overall positions of overtime allowances. The data suggest that while employees recognize the high-level motivational impact (3.55) of overtime allowance, there are concerns about adequacy and fairness in its distribution.

Table 4 presents the descriptive statistics for promotion, evaluating five statements related to employees' perceptions of the promotion process at their bank.

Table 4*Descriptive Statistics of Promotion*

Code	Statements	Mean	Std. Deviation
PMT1	The promotion is clearly communicated and accessible to all eligible employees.	3.21	1.179
PMT2	The criteria for promotion are fair and merit-based at my bank.	3.45	1.308
PMT 3	The prospect of promotion positively influences my job.	3.54	1.256
PMT 4	I believe that promotions are awarded to employees who have high performance and commitment at my bank.	3.46	1.106
PMT 5	I'm satisfied with the promotion policies.	3.55	1.158

Source: Survey 2024

The overall promotion position is satisfactory in the Nepalese commercial banks because the mean value in all statements is more than 3.00. the highest vale is 3.55 for the

satisfaction from the present promotion practices of Nepalese commercial banks. The findings highlight that all the respondents are satisfied from the promotion policy of the banks.

Table 5 presents the position and perception of social security of Nepalese commercial bank.

Table 5

Descriptive Statistics of Social Security

Code	Statements	Mean	Std. Deviation
SC1	Social Security Provision creates job security at my office.	3.45	1.308
SC2	I am motivated by the health insurance coverage at my office.	3.54	1.256
SC3	I am satisfied with the retirement plans at my bank.	3.46	1.106

Source. Survey 2024

While presenting the social security provisions, especially health insurance is appreciated with the highest mean value (3.46) in table 5, there is potential to strengthen perceptions of retirement benefits and job security. Table 6 shows the perception respondents regarding the performance.

Table 6

Descriptive Statistics of Employees Performance

Code	Statements	Mean	Std. Deviation
EP1	My good performance is the output of my present teamwork.	3.63	1.019
EP2	I have a good team and work in my office.	3.61	1.113
EP3	My supervisor easily understands reporting about work.	3.68	.971
EP4	In groups, I easily express my thoughts on managing work.	3.73	.821
EP5	I easily solve problems while working in the office.	3.78	.866
EP6	I feel comfortable using new and innovative technology to solve the difficult task.	3.73	.960
EP7	I easily cope with changing environments.	3.65	.899
EP8	I feel comfortable to work with the new employee.	3.78	.982

Source. Survey 2024

The results indicated that employees demonstrate effective performance across key areas, all statements have the mean value greater than 3.00 with particular strengths in problem-solving, comfortable to work, adaptability, and embracing innovative technologies, while teamwork may benefit from further enhancement. It shows that performance of employees is satisfactory in the Nepalese commercial banks. The overall status are presented in table 7.

Table 7*Overall Descriptive Statistics*

	N	Minimum	Maximum	Mean	SD
Overtime Allowance	153	1.17	4.67	3.4452	.77655
Promotion	153	2.20	5.00	3.6065	.70503
Social Security	153	2.00	4.50	3.4624	.59312
Employee Performance	153	2.25	4.50	3.7008	.62925

Source. SPSS Output, 2024

Employee Performance, the dependent variable in this study, has the highest mean score of 3.7008, with a standard deviation of 0.62925. Responses for employee performance range from 2.25 to 4.50, suggesting that employees generally rate their performance positively. The comparatively lower variability implies a more consistent perception among respondents regarding their performance levels. These descriptive statistics highlight that, on average, employees have a favorable perception of the compensation components (overtime allowance, promotion, and social security) and their own performance. The consistency in responses, as indicated by the standard deviations, supports the reliability of the data in representing employee perceptions at Nepalese commercial Banks.

In the correlation analysis section, Pearson's correlation coefficient is used to systematically examine the direction and strength of linear relationships between compensation components—specifically, social security, overtime allowance, and promotion—and employee performance.

Table 8*Correlations among variables*

	OTA	PMT	SC	EP
OTA	1			
PMT	.243**	1		
SC	.371**	.431**	1	
EP	.362**	.607**	.304**	1

**Correlation is significant at the 0.01 level (2-tailed).

Source. SPSS Output, 2024

Table 8 presents the correlation analysis for the study variables: Overtime Allowance (OTA), Promotion (PMT), Social Security (SC), and Employee Performance (EP). This

analysis assesses the strength and direction of the relationships among these variables, with significance tested at the 0.01 level (2-tailed), indicating a high confidence level in these results. Finally, Social Security (SC) has a positive correlation of 0.304 with Employee Performance, suggesting a moderate but meaningful association. All three compensation variables; overtime allowance, promotion, and social security—are positively correlated with employee performance, with promotion showing the strongest relationship. These correlations underscore the potential impact of compensation elements on enhancing employee performance at Nepalese commercial Banks.

The study's regression analysis phase uses regression models to look at the predicted relationships between employees' performance and pay elements such social security, overtime allowance, and promotions.

Table 9

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.647	.418	.406	.48479

Predictors: (Constant), Social Security, Promotion, Overtime Allowance

Source. SPSS Output, 2024

Table 9 provides the model summary for the regression analysis conducted to examine the effect of compensation factors—overtime allowance, promotion, and social security on employee performance. The R value of 0.647 represents the correlation between the observed and predicted values of employee performance. The R Square value of 0.418 indicates that 41.8% of the variance in employee performance can be explained by the combined effect of the three compensation variables included in this model. The Adjusted R Square is slightly lower, at 0.406, which adjusts the R Square value to account for the number of predictors in the model. The standard error of the estimate is 0.48479, which measures the average distance that the observed values fall from the regression line. A lower standard error suggests better precision in the model's predictions of employee performance.

Table 10 presents the ANOVA (Analysis of Variance) results for the regression model examining the impact of overtime allowance, promotion, and social security on employee performance. This table provides information about the overall fit of the model and tests whether the combination of these compensation variables significantly predicts employee performance.

Table 10*ANOVA*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.167	3	8.389	35.694	.000
	Residual	35.019	149	.235		
	Total	60.186	152			

a. Dependent Variable: Employee Performance

b. Predictors: (Constant), Social Security, Promotion, Overtime Allowance

Source. SPSS Output, 2024

ANOVA results confirm that the regression model is highly significant, supporting the conclusion that overtime allowance, promotion, and social security have a combined, statistically significant effect on employee performance. This finding reinforces the importance of these compensation factors in enhancing employee performance.

Table 11 presents the coefficients from the regression analysis for the study on the effect of overtime allowance, promotion, and social security on employee performance.

Table 11*Coefficients*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.329	.273		4.874	.000
	Overtime Allowance	.191	.055	.236	3.484	.001
	Promotion	.500	.062	.560	8.054	.000
	Social Security	.026	.077	.025	.338	.012

Source. SPSS Output, 2024

The Constant has an unstandardized coefficient (B) of 1.329 with a standard error of 0.273. The t-value of 4.874 and a significance level of 0.000 indicate that this constant is statistically significant, meaning it has a meaningful baseline impact on employee performance when all predictors are held constant. The high t-value of 8.054 and a significance level of 0.000 further confirm that this impact is highly significant. This result suggests that promotion opportunities are a major driver of employee performance. The standardized coefficient (Beta) of 0.025 and the t-value of 0.338 indicate a significant effect on employee performance. Although this coefficient has a significance level of 0.012, which is less than 0.05, the effect size is negligible, implying that social security benefits have a minimal impact on employee performance. Overtime allowance and promotion significantly and positively influence

employee performance, with promotion being the strongest predictor. Social security has a minimal effect on employee performance, while statistically significant. Based on the regression test all the hypothesis are accepted.

Findings

The study found that the descriptive statistics reveal that respondents have generally positive perceptions of overtime allowance, promotion and social security, with mean scores around the mid to high range. Employee performance also scored positively, with a mean of 3.7008, indicating overall favorable performance perceptions among employees. Study shows significant positive relationships among the compensation variables (overtime allowance, promotion, and social security) and employee performance. Promotion has the strongest positive correlation with employee performance, indicating it is a major factor associated with enhanced performance, while social security shows a moderate but positive relationship. The regression model explains approximately 41.8% of the variance in employee performance, highlighting that compensation variables—overtime allowance, promotion, and social security—collectively have a substantial impact on employee performance. The ANOVA analysis confirms the statistical significance of the regression model, suggesting that the combined effect of overtime allowance, promotion, and social security on employee performance is meaningful and unlikely due to chance. Among the compensation variables, promotion has the highest positive impact on employee performance, this finding underscores the importance of career advancement opportunities in enhancing employee performance. Overtime allowance is also a significant positive predictor of employee performance, though its impact is smaller than that of promotion, indicating that it plays a supportive role in performance enhancement. Social security, while statistically significant, has a minimal effect on employee performance, suggesting that although it may be valued, it is not a primary factor influencing performance levels at commercial bank. All the hypothesis are accepted based on regression model.

Conclusion

The study concluded that key factors such as pay level, benefits, salary raises, and the overall salary administration significantly impact employee performance. Employees who were satisfied with these compensation aspects exhibited higher motivation and work performance. Thus, it can be concluded that a well-structured and competitive compensation and benefits package plays a crucial role in enhancing employee performance. Providing attractive compensation not only motivates employees but also ensures a higher level of engagement and productivity, which is vital for the overall success of the bank. Employees who expressed higher satisfaction with factors like pay, benefits, and salary increases demonstrated improved performance. The provision of overtime allowances, career advancement, opportunities and robust social security policies not only enhances employee motivation but also strengthens their

commitment to the organization. Therefore, these factors are important in improving overall employee productivity and ensuring long-term organizational success.

The study also found the significant relationship between compensation, benefits and employee performance and demonstrated a strong correlation between satisfaction with pay, benefits, raises and salary administration and work performance in Nepal's banking sector. Conclusion consistent with Shrestha and Parajuli (2020) and Alansari and Javed (2021). Furthermore, the research conducted by Santuryan et al. (2023) confirms the relevance of compensation in boosting employee performance. Similarly, Prasetyo et al. (2021) identified compensation as a significant factor influencing employee performance within public organizations in Indonesia. In contrast, Rijal (2020) findings, as it highlights how a lack of awareness and engagement with employee benefits, like social security, can hinder overall employee satisfaction and performance. Moreover, the findings of this study are in line with Kamau (2021), who emphasized the importance of employee training and education for enhancing long-term productivity. Hajiali et al. (2022) found that job satisfaction also mediates the relationship between competence and performance.

Implications

Managers can use this evidence to design and implement compensation and benefit strategies that are more aligned with employee needs and expectations. Policymakers can use this research to advocate for policies that promote fair and transparent compensation practices within the financial sector. Future research can expand on these issues by examining other factors that may influence performance, such as work-life balance, organizational culture, and leadership styles service organizations, comparative studies across different industries or regions to explore the broader applicability of the findings.

References

- Acharya, B. R. (2022). Social protection policy and its response in Nepal. *Humanities and Social Sciences Journal*, 14(1), 126-139.
- Adams, J. S., & Freedman, S. (1976). Equity theory revisited: Comments and annotated bibliography. *Advances in Experimental Social Psychology*, 9, 43-90.
- Adams, J.S. (2013). Toward an understanding of inequity. *Journal of Abnormal Psychology*, 67, 422-436.
- Afriyie, E. O., Twumasi, A., Sarpong, E., & Opare, L. D. (2020). The effect of compensation on employees' performance: A case of a technical university in Ghana. *Journal of Management*, 2(11).
- Ahmed, I., Sultana, I., Paul, S. K., & Azeem, A. (2013). Employee performance evaluation: A fuzzy approach. *International Journal of Productivity and Performance Management*, 62(7), 718-734.

- Alansari, R. M., & Javed, U. (2021). The impact of rewards and compensation on employees' performance. *PalArch's Journal of Archaeology of Egypt/Egyptology*, 18(14), 135-145.
- Arifani, A. Z. T., & Susanti, A. Y. (2020). Literature review factors affecting employee performance: Competence, compensation and leadership. *Dinasti International Journal of Economics, Finance & Accounting*, 1(3), 538-549.
- Aryal, S., & Dahal, K. R. (2018). A review of causes and effects of dispute in the construction projects of Nepal. *Journal of Steel Structure and Construction*, 4(144), 2472-0437.
- Bhattacharyya, D. K. (2009). *Compensation management*. Oxford University Press.
- Chapagain, D. (2000). Contract labor in Nepal. In *Proceedings of the ILO Seminar*, 1-33.
- Cronbach, L. J. (1951). *Coefficient alpha and the internal structure of tests*. *Psychometrika*, 16(3), 297-334. <https://doi.org/10.1007/BF02310555>
- Darma, P. S., & Supriyanto, A. S. (2017). The effect of compensation on satisfaction and employee performance. *Management and Economics Journal (MEC-J)*, 1(1).
- Diamond, P. (2004). Social security. *American Economic Review*, 94(1), 1-24.
- Dill, B. (2019). *Risk and compliance incentives*. [Publisher Name].
- Dixon, M. A., & Bäckman, S. J. (2013). *Compensation strategies for employee retention and motivation*. Routledge.
- Dunnette & L.M. Hough (Eds.), *Handbook of industrial & organizational psychology* (2nd ed., pp. 481-569). Consulting Psychologists Press, Inc.
- Frye, M. B. (2004). Equity-based compensation for employees: Firm performance and determinants. *The Journal of Finance*, 59(5), 1981-1998. <https://doi.org/10.1111/j.1540-6261.2004.00693.x>
- Gerhart, B. (2023). *Compensation*. McGraw-Hill.
- Gerhart, B., & Milkovich, G. T. (1992). Employee compensation: Research and practice. In M.D.
- Gyawali, I. (2023). Executive compensation and firm performance: Evidence from Nepalese commercial banks. *The Lumbini Journal of Business and Economics*, 11(1), 142-157.
- Jeffery, R. (2017). Nepal's comprehensive peace agreement: human rights, compliance and impunity a decade on. *International Affairs*, 93(2), 343-364.
- Kamau, T.R. (2021). *Compensation*, 11th Edition, McGraw-Hill Education: ISDN:
- Khan, R. I., Aslam, H. D., & Lodhi, I. (2011). Compensation management: a strategic conduit towards achieving employee retention and Job Satisfaction in Banking Sector of Pakistan. *International Journal of Human Resource Studies*, 1(1), 89.
- Khanal, D. R. (2022). Social Protection in Nepal.
- Mahapatro, B. B. (2021). *Human resource management* (2nd ed.). New Age International Publishers.
- Martocchio, J. J. (2011). *Strategic compensation: A human resource management approach*.

- Pearson Education India.
- Milkovich, G. T., Newman, J. M., & Gerhart, B. (2014). *Compensation*. McGraw-Hill.
- Mishra, S. R., Khanal, P., Karki, D. K., Kallestrup, P., & Enemark, U. (2015). National health insurance policy in Nepal: challenges for implementation. *Global Health Action*, 8(1), 28763.
- Neupane, B., & Risal, N. (2020). Building block of job satisfaction in the employees of bank and financial institutions in Nepal. *The Batuk*, 6(2), 1-6.
- Nguyen, P. T., Yandi, A., & Mahaputra, M. R. (2020). Factors that influence employee performance: motivation, leadership, environment, culture organization, work achievement, competence and compensation (A study of human resource management literature studies). *Dinasti International Journal of Digital Business Management*, 1(4), 645-662.
- NRB. (2021). Monthly statistics Mid-December.
- NRB (2004). Nepal Rastra Bank. *Market Occasional Paper*, (16).
- Phelan, J., & Clement, R. (2010). *Compensation practices in banking: Aligning incentives with sustainable growth and stability*. Financial Stability Review, 14(3), 45-58.
- Pokharel, S. P., & Shrestha, R. K. (2022). Employee views towards retirement scheme in development bank of Nepal. *Cognition*, 4(1), 110-117.
- Pradhan, G. M., & Shrestha, P. (2022). Impact of human resource management practices on organizational citizenship behavior in Nepalese financial institutions. *Nepalese Journal of Management Research*, 2(1), 12-19.
- Rahmawathi, N. P. D., & Supartha, W. G. (2018). The effect of compensation on employee performance mediated by organizational commitments. *The International Journal of Humanities & Social Studies*.
- Reddy, V. S. (2020). Impact of compensation on employee performance. *IOSR Journal of Humanities And Social Science*, 25(9), 17-22.
- Rijal, M. (2020). Perception of commercial bank employees on Contribution Based Social Security Program [Master's thesis, Tribhuvan University].
- Rinny, P., Purba, C. B., & Handiman, U. T. (2020). The influence of compensation, job promotion, and job satisfaction on employee performance of Mercubuana University. *International Journal of Business Marketing and Management*
- Rynes, S. L., Gerhart, B., & Parks, L. (2005). Personnel psychology: Performance evaluation and pay for performance. *Annual Review of Psychology*, 56, 571–600.
<https://doi.org/10.1146/annurev.psych.56.091103.070254>
- Sakha, M. (2022). Employee Compensation and Financial Performance: Evidence from Commercial Banks of Nepal. *Quest Journal of Management and Social Sciences*, 4(2), 172-186.
- Schachter, O. (1984). Compensation for expropriation. *American Journal of International*

Law, 78(1), 121-130.

- Setiadi, R. U., Setiadi, P. B., & Indroyono, I. (2016). The effect of compensation and work motivation on employee performance at semen indonesia limited company. *International Journal of Academic Research and Reflection*, 4(3), 64-85.
- Sharma, K., & Jaiswal, N. (2018). A study on employees attitude towards fringe benefits. *International Journal of Engineering and Management Research (IJEMR)*, 8(2), 176-180.
- Shevchenko, V., Husev, O., Strzelecki, R., Pakhaliuk, B., Poliakov, N., & Strzelecka, N. (2019). Compensation topologies in IPT systems: Standards, requirements, classification, analysis, comparison and application. *IEEE Access*, 7, 120559-120580.
- Shrestha, P., & Parajuli, D. (2020). Employee work performance as an outcome of reward satisfaction: Evidence from Nepalese commercial banks. *IOSR Journal of Business and Management (IOSR-JBM)*, 22(11) (Ser. I), 01-06. DOI: 10.9790/487X-2211010106. Retrieved from www.iosrjournals.org
- Sitopu, Y. B., Sitinjak, K. A., & Marpaung, F. K. (2021). The influence of motivation, work discipline, and compensation on employee performance. *Golden Ratio of Human Resource Management*, 1(2), 72-83.
- Sutoro, M. (2019). The effect of compensation on employee's performance of imperial club golf Tangerang district. *Scientific journal of reflection: Economic, Accounting, Management and Business*, 2(1), 51-60. <https://doi.org/10.37481/sjr.v2i1.50>
- Thakur, B., & Lamsal, R. (2023). Post-merger impact on employee performance of commercial banks in Nepal. *International Journal of Finance and Commerce*, 5(1), 83-91. <https://www.commercejournals.com>
- Walker, D. I. (2004). Is Equity Compensation Tax Advantaged. *BUL Rev.*, 84, 695.
- Widagdo, A., Widodo, D. S., & Samosir, P. S. (2018). Effect of compensation and motivation to employee performance through commitment. *Scholars Journal of Economics, Business and Management (SJEEM)*, 5(4), 319-325.