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The Role of Financial and Non-Financial Compensation in Improving Employee Job Satisfaction and Performance: A Literature Review

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ABSTRACT

This literature review examines how financial and non-financial compensation improve employee job satisfaction and performance. The findings show that financial compensation strengthens satisfaction when employees perceive pay as fair, transparent, competitive, and linked to contribution. Non-financial compensation improves satisfaction by fulfilling psychological needs for appreciation, competence, autonomy, and belonging. Job satisfaction often mediates the relationship between compensation and performance, but this effect depends on organizational justice, leadership, resources, sectoral context, and performance measurement The review concludes that organizations should design integrated total reward systems instead of separating monetary and non-monetary rewards. Balanced compensation systems can strengthen satisfaction, motivation, commitment, and performance when they combine fair pay with meaningful work experiences.

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1. Introduction

Compensation has become a strategic issue in human resource management because organizations face stronger competition for qualified employees, higher employee expectations, and stronger pressure to improve performance. In the past, compensation was often treated as an administrative payment for labor. Current research presents a wider view. Compensation now functions as a signal of organizational value, fairness, and future opportunity (Fulmer et al., 2023). Employees do not only ask how much they receive. They also interpret why they receive it, how the decision was made, and whether the reward reflects their contribution. This interpretation shapes satisfaction, commitment, and work behavior. The role of compensation has also changed because the employment relationship has become more complex. Employees expect income security, but they also expect recognition, development, autonomy, flexibility, and psychological safety. This shift encourages organizations to move from a narrow pay approach to a total reward approach (Elrayah & Semlali, 2023). Financial compensation includes salary, bonuses, allowances, incentives, benefits, insurance, and retirement support. Non-financial compensation includes recognition, career development, training, feedback, job autonomy, supportive leadership, work-life balance, and

meaningful work. These two forms of compensation address different employee needs, but they influence the same core outcomes, namely job satisfaction and performance.

Employee job satisfaction has a key position in this discussion because it captures how employees evaluate their work experience. Satisfied employees usually report stronger motivation, lower withdrawal intention, better commitment, and higher willingness to contribute to organizational goals (Inayat & Khan, 2021). Job satisfaction can also influence employee performance because positive attitudes often encourage employees to maintain effort, cooperate with colleagues, and complete tasks with stronger attention to quality (Memon et al., 2023). However, job satisfaction does not always translate directly into productivity. Employees need resources, skills, leadership support, and fair systems to transform satisfaction into performance. Recent empirical findings show both agreement and inconsistency. (Alkandi et al., 2023) found that incentive and reward systems improved employee performance through job satisfaction. (Gupta et al., 2024) showed that pay-for-performance affected job performance through procedural justice and organizational citizenship behavior. (Chi et al., 2023) found that financial and non-financial rewards did not always strengthen the satisfaction-performance relationship as expected. (Ardianto et al., 2024) reported mixed effects among compensation, job satisfaction, performance, and productivity. These results indicate that compensation can improve employee outcomes, but the mechanism is conditional and context sensitive.

This review identifies three research gaps. First, many studies examine financial and non-financial compensation separately, even though employees experience reward systems as an integrated package. A salary increase may create short-term satisfaction, but recognition, development, and supervisor support may determine whether satisfaction becomes sustainable. Second, many studies test direct effects between compensation and performance without fully explaining the psychological mechanisms involved. Job satisfaction is often included as a mediator, but its role remains inconsistent across sectors and methods. Third, recent research still gives limited attention to contextual conditions such as pay transparency, procedural justice, leadership, job design, and performance measurement. This article aims to review and synthesize recent literature on the role of financial and non-financial compensation in improving employee job satisfaction and performance. The review addresses four research questions. First, how does financial compensation influence employee job satisfaction and performance? Second, how does non-financial compensation influence employee job satisfaction and performance? Third, how does job satisfaction mediate or explain the relationship between compensation and employee performance? Fourth, what critical conditions strengthen or weaken the effect of compensation on employee outcomes? By answering these questions, this review offers a systematic and integrated understanding of compensation as a strategic human resource management practice.

The contribution of this article lies in its integrated perspective. It argues that compensation should not be reduced to salary or incentives. Compensation works as a system of economic, psychological, and social rewards. Financial compensation creates economic security and signals fairness. Non-financial compensation creates recognition, competence, autonomy, and attachment. Job satisfaction connects these rewards with employee behavior, but the connection depends on whether employees perceive the compensation system as credible, fair, and relevant to their needs. This argument supports a more careful design of reward systems in organizations that seek both employee well-being and higher performance.

2. Literature Review

The literature review is organized according to the main keywords of the article: financial compensation, non-financial compensation, employee job satisfaction, employee performance, and the theoretical linkages among these constructs. This keyword-based structure follows the logic of a literature review because it begins with core concepts, explains the theoretical basis, and then connects previous findings into a coherent conceptual framework. The section also highlights debates and contradictions found in recent studies.

2.1. Financial Compensation

Financial compensation refers to monetary rewards that employees receive as an exchange for their labor, skills, time, and contribution. It includes base salary, wages, overtime pay, incentives, bonuses, commissions, profit sharing, benefits, insurance, pension plans, and other economic rewards. In human resource management, financial compensation performs several functions. It attracts qualified employees, retains employees, motivates performance, supports income security, and communicates the value of an employee's contribution (Fulmer et al., 2023). When employees perceive that financial compensation is fair and competitive, they are more likely to evaluate their job positively. Equity theory provides a strong explanation for why financial compensation influences satisfaction. Employees compare their inputs, such as education, skills, experience, effort, and responsibility, with outcomes, such as salary, benefits, recognition, and promotion opportunities (Adams, 1965). They also compare their compensation with colleagues and external labor market standards. If employees perceive balance between inputs and outcomes, they are more likely to feel satisfied. If they perceive imbalance, they may reduce effort, develop dissatisfaction, or search for other employment. Recent studies still confirm the relevance of fairness in pay systems, especially in relation to procedural justice and pay transparency (Gupta et al., 2024).

Expectancy theory also explains financial compensation as a motivational instrument. Employees increase effort when they believe that effort will lead to performance and that performance will lead to valued rewards (Vroom, 1964). Pay-for-performance systems operate on this logic. Bonuses, incentives, and performance-based salary increases can motivate employees when performance indicators are clear, attainable, and trusted. However, pay-for-performance systems may fail when employees view performance criteria as vague, biased, or outside their control (Fulmer et al., 2023). This means that financial compensation must be supported by clear performance management. Financial compensation also has a symbolic function. Employees often interpret pay increases, bonuses, and incentives as signals of competence, appreciation, and organizational trust. (Grund & Soboll, 2025) found that monetary rewards and hierarchy level can influence employees' self-evaluations. This finding suggests that pay can shape how employees see their position and value in the organization. Salary and bonuses do not only fulfill economic needs. They also communicate whether the organization recognizes employee contribution. Despite its importance, financial compensation has limits. Higher pay may reduce dissatisfaction, but it does not always create sustainable commitment or creativity. A poorly designed financial reward system may produce short-term effort but weaken cooperation if employees compete for individual rewards. It may also encourage employees to focus only on measurable targets while ignoring learning, service quality, and collaboration. Therefore, organizations should avoid treating financial compensation as a stand-alone solution for performance problems. Pay must align with fairness, work design, leadership, and employee development (Auer et al., 2021).

2.2. Non-Financial Compensation

Non-financial compensation refers to rewards that do not directly increase employee income but improve the quality of work experience. It includes recognition, appreciation, career development, promotion opportunity, training, job autonomy, flexible work arrangements, supportive leadership, participation in decision making, feedback, psychological safety, and a healthy work environment. These rewards are important because employees evaluate work not only as a source of income, but also as a place for growth, identity, social connection, and meaning (Elrayah & Semlali, 2023). Self-determination theory explains the value of non-financial compensation. Employees tend to be more motivated when work fulfills their needs for autonomy, competence, and relatedness (Deci & Ryan, 2000). Autonomy allows employees to feel trusted and responsible. Competence grows when employees receive training, feedback, and challenging assignments. Relatedness grows when employees experience recognition, respect, and support. Non-financial compensation becomes powerful because it addresses these psychological needs. It strengthens intrinsic motivation and encourages employees to perform well because they find value in the work itself.

Empirical research supports this argument. (Manzoor et al., 2021) found that intrinsic rewards improved employee performance through motivation. This finding shows that employees do not only

respond to financial incentives. They also respond to work experiences that make them feel capable, respected, and connected to organizational goals. When employees receive recognition and development opportunities, they may show stronger persistence and better work quality because the organization supports their personal and professional growth. Non-financial compensation is particularly relevant in knowledge-intensive and service-intensive organizations. In these settings, performance often depends on creativity, problem solving, innovation, emotional labor, and cooperation. (Kossyva et al., 2024) found that human resource, knowledge, and change management practices can enhance employee engagement in knowledge-intensive services. These practices function as non-financial rewards because they provide learning, voice, and participation. They make employees feel involved in organizational progress rather than merely paid for routine tasks.

Health and education sector studies also show the importance of non-financial rewards. (Ghasemi, 2025) found that non-financial incentives such as professional development, supportive work conditions, and career growth opportunities can improve motivation and performance among community health workers. (Elrayah & Semlali, 2023) found that sustainable total reward strategies influenced talented employees' satisfaction, motivation, and performance in the educational sector. These findings show that non-financial compensation can be effective when employees face high emotional demand, limited pay growth, or strong professional identity. However, non-financial compensation cannot replace fair pay. Recognition, autonomy, and flexibility may lose meaning when employees believe that salary is inadequate or unfair. Employees may interpret non-financial rewards as symbolic compensation if organizations use them to avoid financial fairness. For that reason, non-financial compensation should complement financial compensation. It works best when employees already perceive the basic economic exchange as fair.

2.3. Employee Job Satisfaction

Employee job satisfaction refers to a positive evaluation of one's job and work experience. It includes satisfaction with pay, supervision, colleagues, career prospects, work conditions, job content, and organizational policies. In compensation research, job satisfaction is important because compensation influences how employees evaluate fairness and value. A fair reward system can increase satisfaction, while a poorly designed reward system can create dissatisfaction even when other aspects of work are positive (Inayat & Khan, 2021). Financial compensation affects job satisfaction through pay adequacy, pay competitiveness, and pay fairness. Employees want pay that supports personal and family needs, reflects their contribution, and remains reasonable compared with labor market standards. Non-financial compensation affects job satisfaction through recognition, development, autonomy, and support. These elements influence whether employees feel respected and whether they see their work as meaningful. Thus, job satisfaction emerges from both economic and psychological evaluations.

Several recent studies show that job satisfaction can mediate the effect of rewards on performance. (Alkandi et al., 2023) found that employee job satisfaction mediated the relationship between incentive and reward systems and employee performance. (D. W. Ariani, 2023) also showed that compensation, motivation, job satisfaction, and performance are linked in a relational model. These findings suggest that compensation can improve performance because it first improves how employees feel about their job and organization. Yet the mediating role of job satisfaction remains debated. (M. Ariani et al., 2024) found that rewards and training influenced job satisfaction and productivity, but job satisfaction did not mediate the effect of rewards on productivity. (Ardianto et al., 2024) also reported mixed relationships among compensation, satisfaction, performance, and productivity. These mixed results indicate that satisfaction alone may not be enough. Employees also need resources, skills, leadership support, and clear performance systems to transform satisfaction into measurable output. The literature therefore suggests that job satisfaction should be understood as an important but conditional mechanism. Compensation may produce satisfaction, and satisfaction may support performance, but the strength of this pathway depends on context. Employees who are satisfied but lack authority or tools may not perform better. Employees who receive fair compensation but work under weak leadership may not sustain motivation. This explains why compensation studies often produce different results across sectors and organizations.

2.4. Employee Performance

Employee performance refers to the extent to which employees fulfill job responsibilities and contribute to organizational goals. It includes task performance, contextual performance, adaptive performance, productivity, service quality, and organizational citizenship behavior. Task performance relates to the core duties written in job descriptions. Contextual performance includes cooperation, helping behavior, and extra-role contribution. Adaptive performance refers to employee ability to respond to change. Productivity reflects measurable output and efficiency (Memon et al., 2023). Compensation influences employee performance through several mechanisms. Financial compensation can increase effort when employees believe that better performance leads to valued rewards. Non-financial compensation can increase performance by strengthening engagement, commitment, competence, and meaning. Job satisfaction can convert compensation into performance because satisfied employees tend to show stronger effort and lower withdrawal behavior. However, performance is not determined by compensation alone. It also depends on ability, work design, leadership, technology, organizational culture, and opportunity to perform (Fulmer et al., 2023).

Recent studies confirm a positive relationship between satisfaction and performance, but they also show that the relationship is sensitive to measurement. (Memon et al., 2023) foundthat job satisfaction was positively related to employee performance in the construction industry. (Lydiksen, 2023) found that firm-level job satisfaction was associated with stronger pre-tax earnings in Danish firms. These findings suggest that satisfaction may create organizational value when satisfied employees contribute through effort, cooperation, and retention. However, researchers must interpret performance findings carefully. Many studies use self-reported performance, which may inflate the relationship between satisfaction and performance. Employees who feel satisfied may also rate their performance positively. Objective performance data, supervisor ratings, and longitudinal designs can provide stronger evidence. This methodological issue is important because compensation research often aims to guide organizational policy. Policy decisions require evidence that reward systems improve real performance, not only employee perceptions.

2.5. Theoretical Linkages Among Compensation, Satisfaction, and Performance

The relationship among compensation, job satisfaction, and performance can be explained through several established theories. Equity theory emphasizes fairness. Employees evaluate compensation by comparing their inputs and outcomes with others (Adams, 1965). When employees perceive fairness, they are more likely to feel satisfied and maintain work effort. When they perceive inequity, dissatisfaction and reduced effort may occur. This theory explains why pay transparency and procedural justice matter in modern compensation systems. Expectancy theory emphasizes motivation. Employees are more likely to work harder when they believe that effort leads to performance and that performance leads to valued rewards (Vroom, 1964). This theory supports the logic of incentives and pay-for-performance. It also explains why reward systems fail when employees do not trust performance evaluations or when rewards do not match employee values. Self-determination theory emphasizes psychological needs. Employees become more motivated when work provides autonomy, competence, and relatedness (Deci & Ryan, 2000). This theory explains why non-financial compensation matters. Recognition, development, autonomy, and supportive leadership can improve satisfaction and performance because they satisfy internal needs. Combining these theories suggests that effective compensation must satisfy fairness, motivation, and psychological needs at the same time.

3. Research Methods

This article uses a structured literature review design. The review synthesizes recent peer-reviewed studies on financial compensation, non-financial compensation, employee job satisfaction, and employee performance. The design combines systematic search logic with narrative synthesis. This approach allows the article to identify recurring patterns, compare empirical findings, evaluate contradictions, and develop an integrated conceptual interpretation. The review focuses mainly on

journal articles published from 2021 to 2025, while selected foundational theories are included to strengthen the conceptual basis.

3.1. Literature Search Strategy

The literature search used academic databases and publisher platforms commonly applied in management and social science research. The search covered Scopus-indexed and Web of Science-indexed journals, PubMed for health-related workforce studies, JSTOR for theoretical and management literature, SpringerLink, Elsevier or ScienceDirect, Taylor & Francis, Wiley Online Library, Emerald, Sage, MDPI, Frontiers, and other reputable peer-reviewed journal platforms. The search prioritized articles that were relevant to compensation, rewards, satisfaction, motivation, and employee performance. The search used combinations of the following keywords: financial compensation, non-financial compensation, total rewards, employee rewards, pay-for-performance, incentives, job satisfaction, employee performance, employee motivation, organizational justice, reward system, and human resource management. Boolean operators were applied to combine concepts, such as financial compensation AND job satisfaction AND employee performance, non-financial rewards AND employee performance, total rewards AND job satisfaction, pay-for-performance AND procedural justice, and compensation AND performance AND literature review. The search process prioritized studies published between 2021 and 2025. This period was selected to capture recent developments in reward systems, pay transparency, employee experience, hybrid work, and post-pandemic changes in employee expectations. Earlier sources were used only when they provided foundational theories, such as equity theory, expectancy theory, and self-determination theory.

3.2. Inclusion and Exclusion Criteria

Articles were included when they met six criteria. First, the article was published in a peer-reviewed academic journal. Second, the article discussed financial compensation, non-financial compensation, reward systems, total rewards, pay-for-performance, or incentives. Third, the article connected compensation or rewards with job satisfaction, motivation, engagement, productivity, organizational citizenship behavior, or employee performance. Fourth, the article was published mainly from 2021 to 2025. Fifth, the article provided sufficient methodological or conceptual information for review. Sixth, the article was written in English or provided enough English metadata for academic interpretation.

The exclusion criteria included non-peer-reviewed sources, opinion articles without clear academic evidence, duplicated records, studies unrelated to employees or organizational settings, studies focused only on executive compensation without relevance to employee-level outcomes, and articles that examined compensation only as a demographic control variable. Articles were also excluded when they lacked accessible publication details, did not report clear findings, or did not fit the conceptual focus of this review.

3.3. Literature Selection Procedure

The literature selection followed a PRISMA-informed logic. Initial records were identified through database searches and publisher platforms. Duplicate records were removed. Titles and abstracts were screened to evaluate relevance. Full texts were then examined to determine whether each study addressed the relationship among compensation, job satisfaction, and employee performance. The final inclusion consisted of studies that provided direct empirical evidence or strong theoretical support for the review topic.

Table 1. Literature Selection Procedure

Selection Stage	Number of Records	Description
Initial Records	214	Records identified using keyword combinations related to compensation, rewards, job satisfaction, and employee performance.
After Duplicate Removal	171	Duplicate records and repeated publisher entries were removed.
After Screening	58	Titles and abstracts were screened based on relevance to compensation, satisfaction,

Selection Stage	Number of Records	Description
		motivation, and performance.
Full-Text Assessment	34	Full texts were assessed for conceptual fit, research design, and relevance to the review questions.
Final Inclusion	25	Recent peer-reviewed studies and selected foundational theories were included in the synthesis.

3.4. Conceptual Review Methodology Framework

The conceptual review framework positions financial and non-financial compensation as antecedents of job satisfaction and employee performance. Financial compensation includes salary, incentives, bonuses, benefits, pay transparency, and pay-for-performance. Non-financial compensation includes recognition, development, autonomy, flexibility, supervisor support, and meaningful work. Job satisfaction is treated as a key psychological mechanism that may mediate the relationship between compensation and performance. Employee performance includes task performance, contextual performance, adaptive behavior, and productivity. The framework also recognizes contextual conditions. The effect of compensation may differ according to organizational justice, leadership style, sector, job design, employee demographics, labor market conditions, and performance measurement. Therefore, this review does not assume that compensation always produces the same effect. It treats compensation as a strategic system whose effectiveness depends on design quality and employee interpretation.

Tabel 2. Conceptual Review Methodology Framework

Financial Compensation	Non-Financial Compensation	Perceived Fairness and Motivation
Salary, incentives, benefits, pay-for-performance	Recognition, development, autonomy, flexibility	Job Satisfaction
		Employee Performance

Source: Author's conceptual synthesis based on the reviewed literature (2026)

4. Results and Discussion

The reviewed literature shows that compensation affects employees through economic, psychological, and social mechanisms. Financial compensation improves satisfaction when it provides income security and fair recognition of contribution. Non-financial compensation improves satisfaction when it provides respect, autonomy, development, and support. These forms of compensation influence performance directly through motivation and indirectly through job satisfaction, engagement, organizational citizenship behavior, and perceived justice. However, the effect is not automatic. It depends on how employees interpret the compensation system and whether the organization provides the conditions needed for performance.

4.1 Financial Compensation as an Economic and Symbolic Driver

Financial compensation remains a major driver of job satisfaction because it addresses basic economic needs and provides a visible signal of organizational valuation. Employees use salary, incentives, and benefits to evaluate whether their contribution is respected. When pay is competitive and fair, employees are more likely to trust the organization and feel satisfied with their employment relationship (Fulmer et al., 2023). This finding is consistent across many sectors because pay is a central element of the work exchange.

The effect of financial compensation becomes stronger when employees understand the link between contribution and reward. (Gupta et al., 2024) showed that pay-for-performance influenced job performance through procedural justice and organizational citizenship behavior. This means that employees do not respond only to the monetary amount. They also respond to the fairness of the process that determines the monetary reward. A clear and credible pay-for-performance system can encourage employees to maintain effort and contribute beyond formal job requirements. The symbolic

role of financial compensation is also important. (Grund & Soboll, 2025) demonstrated that monetary rewards and hierarchy level were associated with employee self-evaluation. This suggests that employees interpret salary increases and bonuses as feedback about their competence and organizational standing. A bonus can therefore function as both financial reward and social recognition. This dual function explains why compensation decisions often influence morale more strongly than managers expect.

However, financial compensation can create negative effects when it is poorly designed. Incentives that reward only individual output may weaken cooperation and knowledge sharing. Bonuses based on narrow indicators may encourage employees to ignore quality, safety, or long-term learning. Pay differences that lack explanation may increase perceived injustice and reduce trust. For this reason, financial compensation must be designed with attention to fairness, transparency, and strategic alignment (Tenhiala et al., 2024). The literature also indicates that pay is more effective when it is part of a wider human resource system. If employees receive attractive pay but experience weak leadership, limited growth, and unfair procedures, satisfaction may remain fragile. In contrast, fair pay combined with development, recognition, and supportive management can create stronger and more sustainable employee outcomes. This supports the total reward perspective rather than a pay-only approach (Elrayah & Semlali, 2023).

4.2 Non-Financial Compensation as a Psychological Resource

Non-financial compensation strengthens job satisfaction by improving the quality of employee experience. Recognition, autonomy, feedback, training, career development, and flexible work arrangements help employees feel valued beyond their economic role. These rewards matter because employees want to experience dignity, growth, and meaning at work. When organizations provide non-financial rewards consistently, employees tend to develop stronger affective attachment and willingness to contribute (Manzoor et al., 2021). Recognition is one of the most direct forms of non-financial compensation. Employees often want their effort to be noticed by supervisors and peers. Recognition becomes meaningful when it is specific, timely, and linked to real contribution. General praise may have limited impact, but recognition that explains what the employee did well can strengthen competence and motivation. Recognition also reinforces desired behavior because it shows employees which contributions matter to the organization.

Career development is another important non-financial reward. Training, mentoring, promotion pathways, and challenging assignments signal that the organization invests in employee growth. Employees may become more satisfied when they see a future in the organization. This is especially relevant for younger employees and knowledge workers who value learning opportunities. (Kossyva et al., 2024) showed that human resource, knowledge, and change management practices can enhance engagement in knowledge-intensive services. This finding supports the view that development opportunities operate as strategic non-financial compensation. Autonomy and flexibility also influence satisfaction and performance. Employees who have control over how they complete tasks often experience stronger trust and responsibility. Flexible work arrangements can improve work-life balance and reduce stress, especially for employees with family responsibilities or long commuting time. However, autonomy must be accompanied by clear goals and accountability. Without clarity, autonomy can create uncertainty rather than empowerment.

The value of non-financial compensation is also visible in high-demand work environments. In health, education, and service sectors, employees often face emotional pressure and resource constraints. (Ghasemi, 2025) found that professional development and supportive work conditions can improve motivation and performance among community health workers. This finding shows that non-financial rewards can reduce burnout risk and maintain service quality when financial incentives are limited. Nevertheless, non-financial compensation has a boundary condition. It must not be used to cover unfair pay. Employees may appreciate recognition and development, but these rewards will not fully compensate for inadequate salary or unequal benefits. A balanced approach is needed. Fair financial compensation establishes a foundation of economic justice, while non-financial compensation strengthens psychological satisfaction and long-term attachment.

4.3 Job Satisfaction as a Mediating Mechanism

The reviewed studies show that job satisfaction often explains how compensation influences performance. Compensation first affects how employees feel about their work. When employees perceive rewards as fair and meaningful, they are more likely to experience satisfaction. Satisfaction then encourages effort, persistence, cooperation, and lower withdrawal behavior. (Alkandi et al., 2023) provided evidence that job satisfaction mediated the relationship between incentive and reward systems and employee performance. This supports the argument that compensation works partly through employee attitudes. Job satisfaction can also interact with engagement. (Riyanto et al., 2021) found that work motivation and job satisfaction influenced performance through employee engagement. This suggests that satisfaction is not a single end point. It may activate deeper psychological involvement. Satisfied employees who also feel engaged are more likely to invest energy, attention, and creativity in their work. This pathway is especially relevant for organizations that depend on service quality and innovation.

However, the mediating role of job satisfaction remains inconsistent. (M. Ariani et al., 2024) found that rewards and training affected job satisfaction and productivity, but job satisfaction did not directly influence productivity. (Ardianto et al., 2024) found that compensation affected performance, while satisfaction affected productivity, but the mediation pattern was not fully supported. These findings show that satisfaction does not automatically generate output. Employees may feel satisfied because they receive rewards, but performance improvement requires clear targets, resources, and managerial support. There are several reasons for these mixed findings. First, job satisfaction is an attitude, while performance is behavior. A positive attitude can support behavior, but it does not guarantee capability. Second, performance depends on organizational systems. Even highly satisfied employees cannot perform well if they lack tools, information, or authority. Third, the type of performance measure matters. Self-rated performance may show stronger relationships than objective performance data because satisfied employees may evaluate themselves more positively. The literature therefore suggests that job satisfaction should be placed within a broader causal chain. Compensation can improve satisfaction, but satisfaction leads to performance only when employees have ability, opportunity, motivation, and support. This argument fits the ability, motivation, and opportunity logic in HRM. Compensation contributes to motivation, training contributes to ability, and work design contributes to opportunity. A reward system becomes effective when these elements operate together.

4.4 Complementarity Between Financial and Non-Financial Compensation

A key pattern in the reviewed literature is that financial and non-financial compensation should be treated as complementary rather than competing mechanisms. Financial compensation satisfies economic needs and supports fairness. Non-financial compensation satisfies psychological needs and supports intrinsic motivation. Employees evaluate the employment relationship through both dimensions. A strong salary package may attract employees, but recognition, growth, and support often determine whether they stay and perform at a high level. The total reward perspective explains this complementarity. Total rewards combine direct pay, indirect benefits, career development, recognition, work-life support, and work environment quality (Elrayah & Semlali, 2023). This perspective is more realistic because employees do not separate their work experience into isolated categories. They evaluate whether the organization provides a fair and meaningful overall exchange. A salary increase may be less effective if employees face poor leadership or no career path. Recognition may be less effective if employees perceive pay injustice.

The complementarity argument also helps explain why studies sometimes find mixed effects. A study that examines only financial incentives may miss the role of recognition and autonomy. A study that examines only non-financial rewards may miss the importance of salary fairness. Compensation outcomes are often produced by reward bundles. For example, pay-for-performance may improve output when combined with feedback and training. Career development may improve satisfaction when combined with clear promotion criteria and fair pay. Organizations should therefore design reward systems as coherent packages. The first step is to ensure financial fairness. Employees need to believe that salary, incentives, and benefits reflect their contribution and market value. The second step is to build non-financial rewards that match employee needs. Recognition, development,

flexibility, and supervisor support should not be random programs. They should align with job demands, career stage, and organizational strategy. The third step is communication. Employees need to understand the purpose and criteria of each reward component. An integrated system also reduces the risk of conflicting signals. For example, an organization may claim to value teamwork but reward only individual output. This creates inconsistency and may reduce cooperation. Another organization may promote work-life balance but reward long working hours. Employees quickly detect these contradictions. Reward systems must therefore communicate the behaviors and values that the organization truly wants to strengthen.

4.5 Fairness, Transparency, and Trust in Compensation Systems

Fairness is one of the strongest conditions that determine whether compensation improves satisfaction and performance. Employees evaluate both distributive justice and procedural justice. Distributive justice concerns whether the reward outcome is fair. Procedural justice concerns whether the process used to determine the reward is fair. Interactional justice concerns whether managers explain compensation decisions with respect and clarity. These forms of justice influence employee trust and acceptance of compensation policies (Gupta et al., 2024). Pay transparency is increasingly important in modern organizations. Transparency does not only mean revealing salary numbers. It also means explaining pay ranges, criteria for salary increases, bonus formulas, and promotion standards. (Tenhiala et al., 2024) showed that procedural pay transparency can influence motivational climate and employee outcomes. Transparent systems can improve trust when the procedures are fair. However, transparency can also increase dissatisfaction when it exposes unjustified inequality. Therefore, transparency must be supported by consistent and defensible pay decisions.

Trust plays a central role in compensation. Employees may accept difficult compensation decisions when they trust the organization and believe that the process is fair. They may reject even generous rewards when they believe that the system is biased or manipulative. Trust is built through consistency, communication, supervisor integrity, and employee participation. This is why compensation should be linked with leadership quality. Managers translate compensation policy into employee experience. Fairness also applies to non-financial compensation. Training, recognition, flexible work, and promotion opportunities can create resentment if employees perceive favoritism. For example, if only certain employees receive development opportunities without clear criteria, non-financial rewards may reduce satisfaction among others. Organizations should therefore apply transparent criteria to both monetary and non-monetary rewards.

4.6 Sectoral and Contextual Differences

The compensation-satisfaction-performance relationship varies across sectors and contexts. In private sector organizations, financial compensation may have a strong visible role because employees often work under performance targets, bonuses, and competitive labor market pressure. (Inayat & Khan, 2021) found that job satisfaction affected employee performance in private sector organizations. In such contexts, pay competitiveness and performance-linked incentives may strongly influence satisfaction and effort. In public, health, and education sectors, financial compensation may be constrained by regulation or budget. Non-financial compensation becomes important because organizations may not have full flexibility to raise pay. Professional development, recognition, supportive leadership, and meaningful work can help sustain motivation. (Elrayah & Semlali, 2023) found that total reward strategies affected talented employees in education. (Ghasemi, 2025) found that non-financial incentives mattered for community health workers. These studies show that non-financial compensation can be especially relevant when employees value professional identity and social mission.

In knowledge-intensive organizations, compensation must support learning and innovation. Employees in these settings often value autonomy, access to information, career growth, and challenging assignments. (Kossyva et al., 2024) demonstrated that human resource and knowledge management practices can strengthen engagement. This suggests

that compensation should include developmental and relational components, not only salary and bonuses.

Cultural context also matters. In collectivist cultures, employees may place strong value on relationships, supervisor support, group recognition, and organizational harmony. In highly competitive labor markets, employees may prioritize pay level and career mobility. Economic conditions such as inflation can also change reward preferences. When living costs increase, financial compensation becomes more salient. When basic financial needs are met, non-financial compensation may become more influential for satisfaction and retention.

4.7 Critical Evaluation of the Reviewed Literature

The literature provides strong evidence that compensation matters, but several limitations remain. First, many studies use cross-sectional survey designs. These designs can identify associations but cannot fully prove causality. It is possible that compensation improves performance, but it is also possible that high-performing employees receive better compensation. This endogeneity issue is a major concern in compensation research (Fulmer et al., 2023). Future studies need longitudinal designs, panel data, or quasi-experimental approaches. Second, many studies rely on self-reported data. Self-reported satisfaction and self-reported performance may produce inflated relationships because both variables come from the same source. This common method issue can make compensation effects appear stronger than they are. Stronger studies should combine employee surveys with supervisor ratings, objective productivity data, turnover records, absenteeism data, or financial indicators.

Third, many studies examine single reward components. Some examine pay, others examine incentives, others examine recognition or training. This makes it difficult to understand the effect of total reward systems. Employees experience rewards as bundles. A future research agenda should examine how financial and non-financial rewards interact. Researchers should test whether certain combinations produce stronger satisfaction and performance than others. Fourth, the role of job satisfaction remains theoretically important but empirically mixed. Some studies find mediation, while others do not. Future research should compare job satisfaction with other mechanisms such as engagement, perceived organizational support, organizational commitment, organizational citizenship behavior, psychological safety, and perceived justice. This can clarify whether satisfaction is the main mechanism or one part of a broader psychological process. Fifth, sectoral and cultural differences remain underdeveloped. Compensation systems operate differently across industries, countries, and institutional contexts. Public organizations may have less flexibility in financial compensation. Private organizations may rely more on incentives. Health and education organizations may need stronger non-financial rewards due to emotional labor and professional values. Future reviews should compare these contexts systematically.

4.8 Integrated Propositions for Future Research

Based on the synthesis, this review proposes five conceptual propositions. First, financial compensation improves job satisfaction when employees perceive pay as fair, transparent, and aligned with contribution. Second, non-financial compensation improves job satisfaction when it fulfills employee needs for recognition, autonomy, development, support, and meaningful work. Third, job satisfaction mediates the relationship between compensation and performance, but the strength of this mediation depends on organizational justice, leadership, resources, and performance measurement. Fourth, financial and non-financial compensation produce stronger outcomes when they operate as an integrated total reward system. Fifth, compensation systems improve performance more effectively when they are aligned with organizational strategy and employee needs.

These propositions can guide future empirical studies. Researchers can test whether compensation bundles produce stronger effects than individual reward components. They can also compare mediation models involving job satisfaction, engagement, perceived organizational support, and organizational citizenship behavior. Longitudinal studies can examine whether compensation changes lead to sustainable performance improvement or only short-term motivation. Cross-sector

studies can clarify whether financial or non-financial compensation has stronger influence in different organizational contexts.

Table 3. Characteristics of Studies Reviewed

No.	Author(s) and Year	Context	Method	Compensation Focus	Key Finding
1	Fulmer et al., (2023)	General HRM and compensation literature	Review article	Compensation and pay-for-performance	Compensation affects performance, but the effect depends on system design, measurement, and endogeneity.
2	Chi et al., (2023)	Vietnamese employees	Quantitative study, 331 employees	Financial and non-financial rewards	Job satisfaction mediated leadership and performance, while reward moderation was not fully consistent.
3	Alkandi et al., 2023)	Saudi industrial sectors	Quantitative study	Incentive and reward systems	Job satisfaction mediated the relationship between reward systems and employee performance.
4	Elrayah & Semlali, (2023)	Educational sector	Quantitative study	Sustainable total rewards	Total reward strategies influenced satisfaction, motivation, and employee performance.
5	Gupta et al., (2024)	Indian technology firms	Quantitative study, 226 employees	Pay-for-performance	Procedural justice and organizational citizenship behavior explained the pay-performance pathway.
6	Tenhiala et al., (2024)	Organizational compensation setting	Empirical and conceptual study	Procedural pay transparency	Transparency affects employee outcomes through procedural fairness and motivational climate.
7	Grund & Soboll (2025)	German chemical firms	Panel data	Monetary rewards	Salary increases and bonuses function as signals in employee self-evaluation.
8	Manzoor et al., (2021)	Organizational employees	Quantitative study	Intrinsic rewards	Intrinsic rewards improved performance through motivation.
9	Ghasemi, (2025)	Community health workers	Health workforce study	Non-financial incentives	Professional development and supportive work conditions improved motivation and performance.
10	Lydiksen, (2023)	Danish firms	Matched survey and register data	Job satisfaction	Firm-level job satisfaction was associated with stronger pre-tax earnings.
11	Ardianto et al., (2024)	Bank employees	Quantitative PLS-SEM study	Compensation and satisfaction	Compensation affected performance, while satisfaction affected productivity, with mixed mediation.
12	M. Ariani et al., (2024)	PT Pos Indonesia	Quantitative study, 346 employees	Rewards and training	Rewards and training affected satisfaction and productivity, but satisfaction mediation was limited.
13	Inayat & Khan, (2021)	Private sector organizations	Quantitative study	Job satisfaction	Job satisfaction influenced employee performance.
14	Memon et al., (2023)	Construction industry in Pakistan	Quantitative study	Job satisfaction and performance	Job satisfaction was positively related to employee performance.
15	Riyanto et al., (2021)	Organizational employees	Quantitative study	Motivation and satisfaction	Employee engagement mediated the effect of motivation and satisfaction on performance.
16	Auer et al., (2021)	Selection and compensation context	Empirical study	Pay and employee outcomes	Pay shaped employee attitudes, but effects depended on fairness and context.
17	Alnsoura & Kanaan, (2021)	Jordanian universities	Quantitative study	Financial and non-financial incentives	Incentives were related to job tenure and employment attitudes.
18	Hamzah & Matkhairuddin, (2023)	Employee reward context	Quantitative study	Non-financial rewards	Non-financial rewards were related to employee job satisfaction.
19	Husnah et al.,	University	Quantitative	Non-financial	Non-financial compensation

	(2024)	employees	study	compensation	affected satisfaction and employee performance.
20	Lawarang et al., (2023)	Private firm in Indonesia	Quantitative study	Non-financial compensation	Non-financial compensation and satisfaction were related to employee performance.
21	Tarigan et al., (2022)	Organizational employees	Quantitative study	Total reward system	Total reward system influenced job satisfaction and employee productivity.
22	Li et al., (2023)	Employees in China	Latent profile analysis	Total reward satisfaction	Profiles of total reward satisfaction differed in work performance outcomes.
23	Kossyva et al., (2024)	Knowledge-intensive services	Empirical study	Development and HR practices	HRM, knowledge, and change practices enhanced employee engagement.
24	Grund & Soboll, (2025)	Compensation and status context	Empirical study	Monetary reward and hierarchy	Reward systems also signal organizational valuation and employee standing.
25	Tobing, (2025)	PT X	Quantitative study	Financial and non-financial rewards	Job satisfaction mediated reward-performance relationships.

Source: Author's synthesis (2026).

5. Conclusion

This literature review concludes that financial and non-financial compensation play important roles in improving employee job satisfaction and performance. Financial compensation supports economic security, fairness, and extrinsic motivation. Employees respond positively to salary, incentives, bonuses, and benefits when they perceive these rewards as fair, competitive, transparent, and linked to contribution. However, financial compensation alone does not guarantee sustainable performance. Its effect depends on system design, communication, procedural justice, and alignment with performance management. Non-financial compensation strengthens job satisfaction by fulfilling psychological and developmental needs. Recognition, autonomy, career development, training, supportive leadership, flexible work arrangements, and meaningful work help employees feel respected and valued. These rewards are especially important in knowledge-intensive, service-based, health, and education sectors where performance depends on motivation, commitment, emotional energy, and continuous learning. Non-financial compensation works best when it complements fair financial compensation, not when it replaces it.

Job satisfaction often mediates the relationship between compensation and employee performance. Satisfied employees tend to show stronger effort, better cooperation, higher commitment, and lower withdrawal behavior. However, the mediation effect is not automatic. Some studies show weak or inconsistent mediation because performance also depends on resources, ability, leadership, and clear goals. Therefore, organizations should treat job satisfaction as one important mechanism within a broader human resource system. The main contribution of this review is the integrated argument that compensation should be designed as a total reward system. Financial and non-financial compensation satisfy different employee needs, but they become more effective when they send consistent messages about fairness, value, development, and organizational goals. Future research should use longitudinal designs, objective performance measures, and cross-sector comparisons to explain how compensation affects satisfaction and performance over time.

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