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The Impact of Reward Systems on Employee Satisfaction, Productivity, and Retention: An Empirical Analysis

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ABSTRACT : This paper investigates the compensation system and its impact on employee behavior and attitudes. The compensation system was observed through two basic aspects, namely direct and indirect compensation, while employee behavior and attitudes were examined through employee satisfaction and productivity, their identification with the organization, and through the negative effects of fluctuation and absenteeism. The analysis of the theoretical framework and the obtained results of the research conducted in the industrial sector of Bosnia and Herzegovina concluded that a fair and transparent reward system significantly contributes to employee satisfaction and productivity and their loyalty to the organization, while significantly reducing the rate of fluctuation and absenteeism. The research findings showed a greater impact of direct compensation on employee behavior, while indirect compensation plays an important role in shaping a positive work environment, especially when it comes to the feeling of belonging to the organization. The conclusions of the paper confirm that the synergy of direct and indirect compensation can contribute to the creation of a motivated and loyal workforce, which is essential for long-term organizational success.

KEYWORDS - direct compensation, indirect compensation, employee satisfaction, productivity, employee identification with the organization, turnover, absenteeism.

I. INTRODUCTION

Compensation management is a strategic approach to human resources management because it contributes not only to organizational goals but also to the effective management of employees within the organization itself (Armstrong & Brown, 1998; Mashal & Abu Bakar, 2014, pp. 27-28). Compensation is one of the most important instruments that managers use to manage the behavior of employees in the organization. It can be direct and indirect, depending on whether they involve financial or non-financial rewards. From the perspective of the employer and employees, compensation, whether direct or indirect, represents the most important practice of managing people in the organization. Managers see compensation as an instrument through which they can motivate employees to greater engagement, thereby achieving efficiency and competitiveness, while employees, based on what they receive in the form of rewards, assess whether their contribution to the organization is valued and respected (Noe, Hollenbeck, Gerhart & Wright, 1996).

Compensation packages directly affect employee performance, with employees appreciating the variety of rewards they receive from their employers. If compensation packages do not provide for different forms of rewarding and motivating employees, there is a high probability that employees will express their dissatisfaction through poor performance. Given the role that compensation plays in employee satisfaction, it is necessary to define clear criteria for its allocation (Ngwa et al. 2019, p. 14). The fundamental assumption of human resources management is the concept of treating employees as the most valuable asset of the organization, with the reward process being key, but also a source of disagreement in most organizations. Compensation packages offered by organizations are concerned with rewarding employees in accordance with their contribution to the organization, encompassing strategies and processes for developing and maintaining the reward system (Tabiu & Nura, 2013, p.251).

According to Trevor (2011, p. 8), if the practices and policies of direct and indirect compensation are aligned with the organization's strategy, then compensation can be seen as a means of improving organizational performance and the organization's competitiveness in the open market. In strategic human resource management, according to Yousaf et al. (2011), human resource management practices and policies, which include job enrichment, quality material rewards and employee empowerment, have a positive impact on organizational success, measured by various variables such as turnover and absenteeism (Huselid, 1995; Shaw, Delery, Jenkins & Gupta, 1998), financial performance (Huselid, 1995) and employee productivity (Huselid, 1995; Huselid, Jackson & Schuler, 1997).

It should be emphasized that compensation is an instrument in the hands of managers through which they influence the motivation and performance of employees. It is assumed that good performance encourages the achievement of the organization's vision and mission and increases the organization's competitiveness, based on which it can be concluded that compensation is closely related to employee satisfaction, their productivity, connection with the organization, and intended turnover (Widyaningsih, 2016, pp. 24-26).Given the above, this paper aims to analyze how different reward systems affect key aspects of job performance and organizational behavior. The focus of this research includes direct and indirect compensation and understanding their impact on employee satisfaction, productivity, employee engagement with the organization, as well as long-term workforce stability.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The success of an organization in the open market also depends on its employees. Agarwala (2003) states that many successful organizations are strongly committed to taking care of the needs of their employees. The achievement of organizational goals largely depends on the organizational performance and productivity achieved by employees within the organization (Osa & Amos, 2014, p. 108). The management's ability to create a sense of security and trust in the compensation packages offered by the organization among employees leads to satisfaction, employee connection with the organization, increased productivity, and reduced turnover (Guchait & Cho, 2010, p. 1242). Rewards and recognition act on employees as reminders of achievements and thus become a source of incentive for repeating efforts in the future (Saqib et al., 2015, pp. 140-144). According to Kato and Budhwar (2006), rewards and bonuses include human resource management policies such as compensation, promotion arrangements, incentive schemes, benefits, employee participation, employee involvement, communication, employee health, and safety (Guchait & Cho, 2010, p. 1236). Therefore, employee retention and performance, reduction of turnover and absenteeism, and employee engagement with the organization are influenced by various financial and non-financial rewards (Saleem, 2011, p. 259).

Although organizations can use financial rewards to attract employees, financial rewards may sometimes not be effective in retaining employees due to the level of perception that employees may have about them. Thus, direct and indirect compensation can influence employee behavior in a way that they stay in the organization if they are satisfied with the compensation packages or leave the organization if they believe that the compensation packages offered by the organization are not in line with their needs (Korir & Kipkebut, 2016, pp. 45-46). The reward philosophy represents the organization's belief in the principles of reward, while the reward system itself implies the understanding of these principles by employees. However, according to Armstrong & Taylor (2014, p. 358), employees do not care about the reward philosophy but about the practices that arise from it. Strategic reward, from the organization's point of view, is nothing more than a means to improve the organization's performance and ensure competitive advantage, through the alignment of pay strategies, practices, and processes with the organization's strategy (Trevor, 2011, p. 8).

Salem (2011, p.259) states that the basis of the relationship between employees and employers is represented by direct and indirect compensations, which increase employee performance and reduce turnover. A year later, Si & Li (2012, p. 1708) reported on the importance of having rules and procedures in the allocation of direct and indirect compensations. According to the authors Si & Li (2012, p. 1708), employee loyalty, reduction of turnover, and absenteeism occur only in situations where employees perceive direct and indirect compensations as fair. Rizal, Idrus & Djumahir (2014, p. 75) confirm the importance of direct and indirect compensations, pointing out their impact on motivation, identification with the organization, and employee performance.Direct compensation: The basis for motivating workers is direct compensation, and their application depends on the policy and practice of the organization. Salaries, recognitions, and promotions serve as work evaluation mechanisms within the practices and policies of each organization (Salopek & Katavić, 2019, p. 123). Money has long been recognized as a motivating factor for employees. However, Herzberg (1968) questions the effectiveness of money as a motivation factor, arguing that money motivation does not result in lasting satisfaction even though its lack can lead to dissatisfaction. Buntak, Drožđek, and Kovačić (2013, p. 60) also find that every salary increase does not necessarily mean an increase in productivity. A year later, Armstrong and Taylor (2014) emphasize that money does not motivate all workers equally because not everyone has the same needs and desires. The findings of the study by Korir & Kipkebut (2016, pp. 45-46) show that direct compensation contributes to employees' desire to stay or leave the organization, depending on how they are treated.Indirect compensation: Increasing employee motivation, but not through money or any other form of direct reward, which contributes to employee satisfaction, is called indirect compensation. In order to ensure greater employee motivation, managers try to meet the needs of employees through indirect compensation through the development of their abilities, Allowing autonomy and flexibility in work, which leads to greater appreciation and status in the eyes of employees. Therefore, various forms of evaluation and recognition of work that do not involve monetary but exclusively non-financial ways of rewarding employees with the aim of motivating them to perform the desired work behavior can be called indirect compensation (Vidaković, 2012, p.166). Tsai, Yu & Shih-Yi (2005, pp. 846-847) state in their research that indirect compensation can increase productivity and reduce employee turnover and absenteeism. According to Dessler (2011), indirect compensation is indirect monetary and non-monetary compensation that employees receive for their work in the organization. Chhabra (2001) states that indirect compensation includes “fringe benefits” such as housing, medical benefits, daycare centers, etc. Therefore, indirect compensation affects both the productivity and well-being of individuals in organizations that implement these types of compensation (Ahmed & Ahmed, 2014, p. 28).

Job satisfaction: The concept by which employees perceive the extent to which their needs and desires are met is called job satisfaction. There are numerous definitions of employee satisfaction, but they all have in common that employee satisfaction is perceived as a positive attitude towards the work environment and workload (Staples & Higgins, 1998) and that it can only be achieved if the parties are considered partners for mutual satisfaction (Küskü, 2001, p. 400). In the literature, the term “job satisfaction” is used to describe the behavior of employees in an organization, i.e., their perception of the workplace and the organization. In this sense, it is questioned whether the organizational climate has a positive effect on employees, whether the place where they work meets their expectations, and whether they are happy, satisfied, and ready to fulfill their assigned duties because they are doing that particular job. Many studies confirm that satisfaction is a factor in motivation, goal achievement, and positive employee morale in the workplace (Sageer, Rafat & Agarwal, 2012, p. 32). According to Baxi & Atre (2024, p.1), job satisfaction is a multidimensional category that encompasses various aspects, which synergistically shape the satisfaction of each individual and whose implications are reflected in the success and performance of the organization. In shaping employee satisfaction, according to Baxi & Atre (2024, p.1), the key role is played by the perceived fairness of management practices and policies, among which direct and indirect compensations play a significant role. Hilton et al. (2023, p.1) in their study prove the importance of job satisfaction, emphasizing that job satisfaction must be the focal point of corporate governance. In the author's opinion, lack of satisfaction among employees can result in turnover, which consequently affects the performance and survival of the organization.

Employee productivity: According to Singh & Mohanty (2012, p.52), productivity is nothing more than the relationship between production and investment. Employee productivity is a measure of their efficiency in accomplishing work tasks in a certain period (Chen et al., 2023, p.20). Employees who perceive compensation packages as fair are more productive and are not prone to absenteeism. In a study conducted by Thapa (2023, p.1), stated that the combined approach of direct and indirect compensations that organizations apply gives the best results when it comes to employee productivity. A year earlier, Liu and Liu (2022, p.1) came to similar results, but only when it comes to direct compensation. Namely, the authors reported that monetary incentives affect employee productivity. Putra et al. (2022, p. 212) state that direct and indirect compensations are an important means of increasing employee productivity. Previous research by Saharuddin & Sulaiman (2016) and Wardoyo (2016) confirmed that if the compensation offered by organizations is attractive to employees, then there will be an increase in productivity and vice versa. The impact of compensation packages on productivity is also reported by Liu et al (2025), emphasizing that due to the increase in compensation, there is an improvement in organizational performance.

Employee identification with the organization: Organizational identification, by definition, occurs when, when making a decision, an employee considers outcomes that are not only favorable to him or her but also contribute to the goals of the organization. (Tompkins & Cheney, 1983, p. 144). Employee identification with the organization is related to their understanding of the organization and represents a state in which employees link their attitudes and goals with the goals of the organization. When employee identification with the organization is at a high level, then the employee perceives his or her role in the organization as the most important and identifies his or her values with the values of the organization. The consequences of such identification can be recognized in the willingness of employees to do more for the organization, even when they are not paid for it (Dutton et al., 1994, p.239). If organizations promote a sense of belonging through advocacy and propagation of the basic culture of the organization, it is possible to motivate employees to maintain a high degree of consistency with the organization (Dai and Qin, 2016, p. 56). Employee identification with the organization is important because it is the process through which people define themselves and, as such, transmit their beliefs to others and use them as a navigation in their lives (Ashforth et al. 2008, p. 334).

Fluctuation and absenteeism: In a modern organizational environment, one of the biggest challenges is employee turnover, which, if not kept under control, can have negative consequences for the overall quality and efficiency of the organization. Namely, retaining professional and competent staff is a challenge in itself, but also one of the more serious problems of today's managers. Organizations that do not foster transparency and fairness in remuneration are very often exposed to the risk of a dissatisfied workforce, which in today's business conditions cannot be viewed as a consumable commodity but as valued human capital (Mendis, 2017, p.67). Examining the direct and indirect impact of compensation on turnover, A'yuninnisa and Saptoto (2015, p.57) state that there are both direct and indirect effects of salary satisfaction on turnover. The results of the Mendis study (2017, p. 70) indicate that direct and indirect compensation play a significant role in reducing employee turnover intentions. Therefore, employees' intention to leave the organization will be lower if the reward system is designed to meet the needs and expectations of employees. An effective and attractive compensation package significantly contributes to reducing employee turnover and absenteeism.

Torre, Pelagatti, and Solari (2015) show that the actual equity of pay systems contributes to explaining absenteeism levels. The results showed that both internal and external equity are relevant factors in explaining absenteeism. External pay equity is, on the one hand, associated with lower levels of absenteeism, and the relationship becomes stronger when pay levels are explained by employee performance. On the other hand, internal pay equity showed a more complex relationship. The findings show that the relationship between pay equity and absenteeism at the organizational level depends on whether pay inequalities are explained by previous levels. The authors emphasize that when pay differences assume negative values, absenteeism levels are lowest, and vice versa when the pay ratio assumes positive values, absenteeism levels are highest (Torre, Pelagatti & Solari, 2015, pp. 430-436).

Taking into account the importance of direct and indirect compensations and their impact on employee behavior, the following hypotheses were set:
H1: “Direct compensations affect employee job satisfaction.”
H2: “Direct compensations affect employee productivity.”
H3: “Direct compensations affect employee identification with the organization.”
H4: “Direct compensations affect employee turnover and absenteeism.”
H5: “Indirect compensations affect employee job satisfaction.”
H6: “Indirect compensations affect employee productivity.”
H7: “Indirect compensations affect employee identification with the organization.”
H8: “Indirect compensations affect employee turnover and absenteeism.”

III. METHODOLOGY

The research was conducted in Bosnia and Herzegovina and included a representative sample of 128 companies. Data collection was carried out using a structured survey instrument, while the data processing was performed using descriptive and inferential statistical techniques using the SPSS version 21 software tool. Regression analysis was used to test the hypotheses. The survey instrument was structured in two parts. The first included elements of direct and indirect forms of compensation, while the second focused on factors related to organizational behavior - including employee satisfaction, level of productivity, employee identification with the organization, and the occurrence of turnover and absenteeism. All measured variables were expressed using a five-point Likert scale, with a response range from completely disagree to agree. The research was conducted within the industrial sector, with the main goal of examining how different types of compensation affect employee satisfaction, work performance, their connection to the organization, and overall staff stability in medium and large business systems in Bosnia and Herzegovina. The reliability of the scales was checked by calculating Cronbach's Alpha coefficient.The questionnaires were sent to managers and employees in professional services. Of the 140 distributed questionnaires, 128 were validly completed and returned, which represents a response rate of 91.43%. When selecting organizations, care was taken to ensure even territorial coverage, including companies from the Federation of BiH, Republika Srpska, and Brčko District.

IV. RESULTS

The first step in the research analysis was to assess the reliability of the measurement scales used in the questionnaire. Reliability was determined using the Cronbach's Alpha coefficient, which shows the degree of internal consistency of the statements, where its values can vary between 0 and 1. The closer the value is to 1, the greater the precision and stability of the measuring instrument. Based on the collected results and their analysis, it can be concluded that the measuring instruments used in this research have a high degree of reliability, which ensures the credibility of the collected data.

Table 1. Cronbach's Alpha coefficients of questionnaire reliability

Variables	Cronbach's Alpha
Direct Compensation	0,969
Indirect Compensation	0.932
Job Satisfaction	0,926
Productivity	0.937
Employee Identification with the Organization	0,933
Workforce Stability	0,934

Source: Authors' research

Analysis of the impact of direct compensation on employee job satisfaction : In order to test the first hypothesis, which read "Direct compensation affects employee job satisfaction", table 2 shows the results of simple linear regression models applied with the aim of testing the first hypothesis. In the proposed hypothesis, direct compensation represents an independent variable, while employee job satisfaction is a dependent variable.

Table 2. The impact of direct compensation on employee job satisfaction

Component (factor)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r^2	F	p	a	b	Beta
Direct Compensation	0,780	0,609	195,8	0,000	0,06	0,108	0,780

Source: Authors' research

From the realized results shown in Table 2, we can conclude that direct compensation has a statistically significant impact on employee job satisfaction ($p < 0.000$). The findings obtained through regression analysis confirm that direct compensation is a significant predictor of job satisfaction in the analyzed sample of organizations, thus confirming the first hypothesis.

Analysis of the impact of direct compensation on employee productivity : In order to test the second hypothesis, which read "Direct compensation affects employee productivity", table 3 shows the results of simple linear regression models applied with the aim of testing the second hypothesis. In the proposed hypothesis, direct compensation represents an independent variable, while employee productivity is a dependent variable.

Table 3. Impact of direct compensation on employee productivity

Component (factor)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r^2	F	p	a	b	Beta
Direct Compensation	0,537	0,288	51,1	0,000	1,12	0,076	0,537

Source: Authors' research

From the realized results shown in Table 3, we can conclude that direct compensation has a statistically significant impact on employee productivity ($p < 0.000$). The findings obtained through regression analysis confirm that direct compensation is a significant predictor of employee productivity in the analyzed sample of organizations, thus confirming the second hypothesis.

Analysis of the impact of direct compensation on employee identification with the organization : In order to test the third hypothesis, which read "Direct compensation affects the identification of employees with the organization", table 4 shows the results of simple linear regression models applied with the aim of testing the third hypothesis. In the proposed hypothesis, direct compensation represents an independent variable, while employee identification with the organization is a dependent variable.

Table 4. The impact of direct compensation on employee identification with the organization

Component (factor)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r^2	F	p	a	b	Beta
Direct Compensation	0,631	0,399	83,5	0,000	6,13	0,268	0,631

Source: Authors' research

From the realized results shown in Table 4, we can conclude that direct compensation has a statistically significant impact on employee identification with the organization ($p < 0.000$). The findings obtained through regression analysis confirm that direct compensation is a significant predictor of employee identification with the organization in the analyzed sample of organizations, thus confirming the third hypothesis.

Analysis of the impact of direct compensation on reducing turnover and absenteeism : In order to test the fourth hypothesis, which read "Direct compensation affects the reduction of turnover and absenteeism", table 5 shows the results of simple linear regression models applied with the aim of testing the fourth hypothesis. In the proposed hypothesis, direct compensation represents an independent variable, while fluctuation and absenteeism is a dependent variable.

Table 5. Impact of direct compensation on reducing turnover and absenteeism

Component (factor)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r^2	F	p	a	b	Beta
Direct Compensation	0,576	0,332	62,6	0,000	9,72	0,392	0,576

Source: Authors' research

From the realized results shown in Table 5, we can conclude that direct compensation has a statistically significant impact on turnover and absenteeism ($p < 0.000$). The findings obtained through regression analysis confirm that direct compensation is a significant predictor of lower turnover and absenteeism rates in the analyzed sample of organizations, thus confirming the fourth hypothesis.

Analysis of the impact of indirect compensation on employee job satisfaction : In order to test the fifth hypothesis, which was "Indirect compensation affects employee job satisfaction", Table 6 presents the results of simple linear regression models applied to test the fifth hypothesis. In the hypothesis, indirect compensation is the independent variable, while employee job satisfaction is the dependent variable.

Table 6. Impact of direct compensation on employee job satisfaction

Component (factor)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r^2	F	p	a	b	Beta
Indirect compensations	0,514	0,265	45,3	0,000	0,661	0,090	0,514

Source: Authors' research

From the realized results shown in Table 6, we can conclude that indirect compensations show a statistically significant impact on employee job satisfaction ($p < 0.000$). The findings obtained through regression analysis confirm that indirect compensations are a predictor of job satisfaction in the analyzed sample of organizations, thus confirming the fifth hypothesis.

Analysis of the impact of indirect compensation on employee productivity with the organization : In order to test the seventh hypothesis, which was "Indirect compensation affects employee productivity", Table 7 shows the results of simple linear regression models applied to test the sixth hypothesis. In the hypothesis, indirect compensation is the independent variable, while employee productivity is the dependent variable.

Table 7. Impact of direct compensation on employee productivity

Component (factor)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r^2	F	p	a	b	Beta
Indirect compensations	0,442	0,195	30,56	0,000	3,813	0,399	0,442

Source: Authors' research

From the realized results shown in Table 7, we can conclude that indirect compensations show a statistically significant impact on employee productivity ($p < 0.000$). The findings obtained through regression analysis confirm that indirect compensations are a predictor of employee productivity in the analyzed sample of organizations, thus confirming the sixth hypothesis.

Analysis of the impact of indirect compensation on employee identification with the organization : In order to test the seventh hypothesis, which was "Indirect compensation affects employee identification with the organization", Table 8 shows the results of simple linear regression models applied to test the seventh hypothesis. In the hypothesis, indirect compensation is the independent variable, while employee identification with the organization is the dependent variable.

Table 8. The impact of direct compensation on employee identification with the organization

Component (factor)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r^2	F	p	a	b	Beta
Indirect compensations	0,562	0,316	58,08	0,000	15,695	1,532	0,562

Source: Authors' research

From the realized results shown in Table 8, we can conclude that indirect compensations show a statistically significant impact on employee identification with the organization ($p < 0.000$). The findings obtained through regression analysis confirm that indirect compensations are a predictor of employee identification with the organization in the analyzed sample of organizations, thus confirming the seventh hypothesis.

Analysis of the impact of indirect compensation on reducing turnover and absenteeism : In order to test the eighth hypothesis, which was "Indirect compensation affects the reduction of turnover and absenteeism", Table 9 shows the results of simple linear regression models applied to test the eighth hypothesis. In the hypothesis, indirect compensation is the independent variable, while turnover and absenteeism are the dependent variables.

Table 9. Impact of direct compensation on reducing turnover and absenteeism

Component (factor)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r^2	F	p	a	b	Beta
Indirect compensations	0,494	0,244	40,73	0,000	23,688	2,157	0,494

Source: Authors' research

From the realized results shown in Table 9, we can conclude that indirect compensations show a statistically significant impact on employee identification with the organization ($p < 0.000$). The findings obtained through regression analysis confirm that indirect compensations are a predictor of reduced turnover and absenteeism in the analyzed sample of organizations, thus confirming the seventh hypothesis.

V. DISCUSSIONS

The results of this study indicate a significant impact of direct and indirect compensation on employee job satisfaction, increased productivity, employee identification with the organization, and reduced turnover and absenteeism. However, the intensity of this impact varies with both independent and dependent variables, with direct compensation generally being a stronger predictor of employee job satisfaction, increased productivity, employee identification with the organization, and reduced turnover and absenteeism. These findings confirm and build on the results of previous studies that have investigated various aspects of the impact of direct and indirect compensation (Ridwan & Anik, 2020; Armstrong & Taylor, 2014; Si & Li, 2012).The research findings showed that direct compensation has the strongest impact on employee job satisfaction ($r = 0.780$; $r^2 = 0.609$), with 60.9% of the variance in job satisfaction being explained by this form of reward. In contrast, indirect compensation has a moderate but still statistically significant impact ($r = 0.514$; $r^2 = 0.265$), indicating that financial aspects of rewards are more crucial when it comes to employee job satisfaction. These results are in line with previous research that highlights that financial rewards significantly affect job satisfaction (Martins & Coetzee, 2007; Kristanti et al., 2021).

When it comes to productivity, direct compensation again has a more pronounced impact ($r = 0.537$; $r^2 = 0.288$) compared to indirect compensation ($r = 0.442$; $r^2 = 0.195$). Based on the results obtained, it can be argued that employees are more willing to invest more effort and achieve better work performance when there is a clear and direct connection between the work performed and the financial reward, which is in line with previous research conducted by Thapa (2023). However, research conducted by Putra et al. (2022) states that the synergy of direct and indirect compensation is the best predictor of employee productivity.The third and seventh hypotheses examined the impact of direct and indirect compensation on employee identification with the organization, and the results of the study regarding this dependent variable showed that both direct ($r = 0.631$; $r^2 = 0.399$) and indirect ($r = 0.562$; $r^2 = 0.316$) compensations have approximately the same impact on employee identification with the organization. The findings are in line with previous research, according to which compensation is closely related to organizational identification, which includes elements of long-term loyalty and connection with the organization (Si & Li, 2012; Ahmed & Ahmed, 2014; Widyaningsih, 2016).

When it comes to turnover and absenteeism, direct compensation has a slightly stronger impact ($r = 0.576$; $r^2 = 0.332$) compared to indirect compensation ($r = 0.494$; $r^2 = 0.244$). Based on the results obtained, it can be concluded that attractive salary and bonus systems can significantly contribute to workforce retention and reducing unwanted departures, but that indirect compensation, such as recognition, flexible working hours, and opportunities for advancement, also contribute to reducing turnover and absenteeism, although to a lesser extent. The results are consistent with previous research by Korir & Kipkebut (2016) and Mendis (2017), which suggests a balanced system of direct and indirect compensation as a strong predictor of reducing turnover and absenteeism.The results of this study confirm the importance of direct and indirect compensations due to their impact on both organizational goals and employee behavior in the organization. Research such as that conducted by Thapa (2023) and Putra et al. (2022) indicates that a combination of direct and indirect compensations gives the best results when it comes to efficiency and reducing labor turnover. However, according to Stajkovic & Luthans (2001), regardless of the type, there is an expectation that rewards will encourage employees to perform better. According to Pfeffer (1998), the idea that people work exclusively for money is a "myth", while Greene et al. (1994, p. 11) argue that the reward system is more than compensation (Elmadağ & Ellinger, 2018, p. 124). Based on all of the above, it can be concluded that organizations that have established reward procedures and rules can achieve better results than those where employees are not sure how much their work is worth. Research conducted by Kuvaas and Dysvik (2009) shows that a combination of direct and indirect rewards leads to the highest results in terms of employee motivation and performance, which is consistent with the results of this paper.

VI. CONCLUSION

Based on the research conducted, it can be concluded that direct and indirect compensation have a statistically significant impact on key organizational variables, such as job satisfaction, employee productivity, identification with the organization, and reduction of turnover and absenteeism. However, the results indicate that direct compensation is a stronger predictor of the aforementioned outcomes, given the higher values of the correlation coefficients, determination coefficients, and standardized beta coefficients compared to indirect compensation. This confirms the importance of a fair and transparent payment and reward policy in the context of strengthening motivation and organizational stability. Despite somewhat lower values, indirect compensation still plays an important role in shaping a positive work environment, especially when it comes to a sense of belonging to the organization. A combined approach to compensation management, which includes both direct and indirect compensation, can contribute to the creation of a motivated and loyal workforce, which is essential for long-term organizational success. The results obtained can serve as a basis for adopting better quality human resources management practices and policies, and contribute to improving the reward system in modern organizations.

The theoretical contribution of this research is reflected in expanding the existing knowledge about the importance of compensation and its differentiated impact on job satisfaction, productivity, employee identification with the organization, and reducing turnover and absenteeism.

The research results also indicate the importance of the synergistic effect of direct and indirect compensation within organizational behavior, which contributes to the theoretical model that connects people management and organizational effectiveness.The practical contribution of this research is reflected in providing concrete guidelines to managers, human resources specialists, and decision-makers in organizations when it comes to creating and improving compensation systems. A greater impact of direct compensation compared to indirect compensation on all key organizational variables was identified – job satisfaction, productivity, identification with the organization, and reduction of turnover and absenteeism – which allows for better targeting of resources and budgets towards forms of reward that bring the most benefits to the organization. The findings can serve as a basis for designing more effective strategies for employee retention and strengthening organizational loyalty, especially in the context of contemporary challenges such as staff turnover and lack of work motivation. Organizations that rely on data from such empirical research have a greater chance of developing balanced and motivating compensation packages, tailored to the needs of employees and strategic business goals.

The social contribution of this research is reflected in its ability to point out the broader importance of an effective compensation system, not only within individual organizations but also at the level of society as a whole. By increasing employee satisfaction, productivity, and organizational loyalty, the implementation of optimal compensation strategies can contribute to greater labor market stability, strengthening economic development, and reducing the negative consequences of turnover and absenteeism. In addition, the research results can contribute to raising awareness of the importance of fair and transparent remuneration in the context of building socially responsible and sustainable work environments. In this way, the research indirectly contributes to improving the quality of working life, developing organizational culture, and strengthening the sense of social security among employees, which are key factors for long-term social prosperity.

Based on the results of this analysis, key recommendations for organizations seeking to improve productivity, workforce stability, and organizational alignment include:

1. Reward strategies should primarily focus on direct compensation, as they have a significantly greater impact on key organizational indicators: satisfaction, productivity, loyalty, and retention.
2. Indirect compensation should not be neglected, as it also has positive effects, especially on employee identification with the organization.
3. The optimal approach is a combination of direct and indirect benefits, with priority given to financial rewards that are linked to work results and achievements.
4. When designing a compensation system, managers should use such models to quantify the impact of their measures on employee behavior, thus enabling a better approach to human resources management.

Although this research contributed to a better understanding of the importance of compensation in the work environment, it is necessary to point out certain limitations that should be taken into account when interpreting the results. First of all, the research was conducted within a limited number of organizations and on a sample of managers from a single region, which means that the conclusions obtained cannot be automatically applied to all work environments or sectors. Different industries, organizational cultures, and economic conditions can affect how employees perceive and react to compensation. The research also relied on questionnaires in which participants self-assessed their attitudes and experiences. Although this is a common practice in social sciences, it is possible that some responses were influenced by personal beliefs, current mood, or a desire to present themselves in a more positive light. Furthermore, the research did not track changes over time, but recorded the situation at a single point in time. Therefore, future research should include a larger sample and consider additional factors that shape employees' work behavior.

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