



Compensation! Is It the Key to Improving Employee Performance and Commitment in the VUCA Era?

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ABSTRACT

The era of volatility, uncertainty, complexity, and ambiguity (VUCA) and the post-COVID-19 pandemic impact have posed significant challenges for organizations in managing human resources. This research aims to explore how compensation systems, employee well-being, organizational commitment, and individual performance in the manufacturing sector in West Java are affected by a quantitative study using a cross-sectional survey design with 303 respondents out of 500 manufacturing industry employees. Data collection was conducted through questionnaires using a Likert scale and analyzed using Structural Equation Modeling (SEM). The unique finding of this study is that the direct impact of compensation on individual performance is relatively small, but the mediating effect through employee well-being becomes more significant. This research provides empirical contributions that compensation is not merely a mechanism of financial transactions, but a strategic instrument in building a sustainable work ecosystem, in line with the SDGs goals. The main conclusion underscores the importance for organizations to integrate fair compensation strategies with efforts to enhance employee well-being and commitment for sustainable competitiveness.



INTRODUCTION

The business ecosystem in an era of volatility, uncertainty, complexity, and ambiguity (VUCA) necessitates that enterprises rethink their compensation strategies to attract and retain best talent (Azman et al., 2020). Furthermore, following the COVID-19 pandemic, issues have emerged that impact employee well-being, such as job uncertainty, work stress, and work-family conflict, all of which can lead to employee burnout (Nainggolan, 2022). Health and well-being concerns, whether physical, emotional, or financial, have grown commonplace in the workplace. According to some surveys, as much as 39% of employees are anxious at work (MetLife, 2022), and about 62% of professionals globally experience exhaustion at work (GallUp, 2023).

The UN developed the Sustainable Development Goals (SDGs), which include health, well-being, economic growth, and decent work to create a better world (United Nation, 2023). Indonesia, a UN member, has Southeast Asia's largest manufacturing industrial area, with 32,193 medium and large-scale firms as of 2023 (Badan Pusat Statistik, 2023), actively contribute to the accomplishment of UN goals by creating laws of Cipta Kerja that serve as a tool to deregulate and debureaucratize, especially in the face of the various rules now in Indonesia (Sudarmanto et al., 2021). The Job Creation Law contains the concept of simplification of economic transformation. The Job Creation Law has combined 80 laws into 11 clusters within one law (Novanto & Herawati, 2022). The Job Creation Law Number 6

of 2023 is a new policy from the Indonesian government that includes a mandate for wage increases that align with economic growth and improvements in worker productivity.

Discussing employee welfare, based on the results of several survey institutions in Indonesia, it was found that 36% of labor-related violations were committed by employers, with a distribution of 55% unpaid overtime, 38% working 40 hours a week, and 31% of companies not paying wages according to the minimum wage (HRD BCT, 2023). Furthermore, based on the 2024 survey results on the manufacturing industry in West Java regarding the government's regulatory adjustments on wage increases, 47.89% of companies have not yet made wage adjustments (Tim HR Manufaktur, 2024). According to many studies, pay components like as base income, incentives, perks, and compensation structure are all vital in ensuring that employees feel treated fairly and respected (Magito, 2020).

When it comes to pay, putting in place a compensation system is critical for enhancing process quality and efficiency. Organizations that integrate performance and pay systems can create an environment that inspires workers to work more effectively and efficiently (Hassan, 2016). Effective pay schemes can boost employee competence, company culture, and job satisfaction, resulting in better performance (Kang & Lee, 2021). Furthermore, a well-designed pay system can reduce stress, boost motivation, promote employee happiness, and improve overall performance, allowing the firm to compete effectively in the marketplace.

Employees expect to understand salary levels, which has an impact on job satisfaction, retention, and performance (Auer et al., 2021). Compensation includes a fair fixed pay, fair employee involvement in the company's success, and unique allowances that improve employee satisfaction and performance (Dunger, 2023). AIHR, 2024 divides compensation components into two categories: direct compensation (base pay, merit pay, incentive pay, and deferred pay) and indirect compensation (protection programs, remuneration for time not worked, and service perquisites) because, a good compensation system not only affects individual performance but also has a positive impact on organizational performance (M. Z. Othman et al., 2021). A compensation package that is applied fairly and equitably plays an important role in creating overall employee satisfaction, motivation, and well-being in the workplace, which impacts organizational performance.

Employee well-being is a topic that has been extensively researched in academic literature. The lack of comprehensive tools has become the focal point for the development and validation of a scale to measure employee well-being (Pradhan & Jena, 2017). Many studies have explored various dimensions of employee well-being, such as aspects of employee engagement and individual well-being in relation to organizational performance (Adekoya et al., 2019), healthcare facilities as a source of employment (Tomo & De Simone, 2019), the role of leadership, such as transformational leadership (Samad et al., 2022), and organizational factors such as performance management justice in HRM practices can reduce the negative impact on employee well-being, especially in the workplace (De Koeijer et al., 2022; Wijaya et al., 2024).

Zheng et al., 2015 developing an 18-item scale to assess employee well-being that encompasses three dimensions: life well-being, workplace well-being, and psychological well-being. The life well-being dimension includes emotional aspects reflecting personal and family conditions. The workplace well-being dimension covers work-related aspects, such as compensation, labor protection, logistics services, HRM practices, and management fairness in work settings. And psychological well-being that includes learning, personal growth, achievement, and self-actualization.

This scale has been widely used in various studies to evaluate employee well-being in different environments. Some studies applying the employee well-being scale found that employee well-being can reduce negative effects such as absenteeism, employee turnover, and performance. Furthermore,

the alignment between HRM practices in enhancing employee well-being has a positive impact on task performance and reduces work fatigue (Aulia Anjani & Dewi Noorrizki, 2022; He et al., 2019).

In the VUCA era, the concept of employee organizational commitment is crucial for the success and resilience of the organization. The VUCA era can trigger feelings of insecurity and anxiety among employees, making it important to cultivate strong organizational commitment to effectively navigate uncertainty (Sun et al., 2021a). The psychological state that binds employees to the organization can reduce turnover rates and increase employee loyalty (Feminine et al., 2019). Organizational commitment such as employee motivation, job satisfaction, and performance positively impact organizational productivity (Obeng et al., 2020). Furthermore, organizational commitment is a key factor that influences employee readiness for change, making it important for organizations to uphold commitment to facilitate adaptation in an ever-evolving era (Masruroh et al., 2022).

Organizational Commitment Questionnaire (OCQ), created by Mowday et al., (1979), consists of fifteen items with a Likert scale created to determine how close employees are to their organization. OCQ has three components that describe commitment, including the desire to do something, the desire to remain a member of the organization, and the acceptance of the organization's principles. Many studies apply the OCQ alongside several variables such as performance development management in universities (Weiherl & Frost, 2016), leadership style, organizational culture (Katper et al., 2020), innovation capability, turnover intention, and job satisfaction (Oriana & Violita, 2020).

Employee work performance is the level of achievement of an activity, program, and policy using available resources to achieve the established goals (Mendonça et al., 2021). The evaluation process usually includes monitoring work performance based on various criteria such as skills, work ethic, work ability, work attitude, and work potential (Duan & Liu, 2015). Furthermore, the self-report scale of the Individual Work Performance Questionnaire (IWPQ) can be used by organizations to measure job performance dimensions such as task performance, contextual performance, and adaptive performance (Pradhan & Jena, 2017). The IWPQ has been validated in various studies to effectively measure job performance dimensions (Ramos-Villagrasa et al., 2019). This system aims to identify the effectiveness of employees' daily activities and provide valuable information for the decision-making process (Tarasova et al., 2020). The IWPQ serves as a valuable tool for understanding and improving individual work performance in today's dynamic work landscape.

In the VUCA era, there is a need for compensation strategies to retain talent. The literature shows that compensation can affect employee loyalty and commitment to the organization. This framework is comprehensively designed to capture the relationships between variables, allowing for the analysis of both direct and indirect effects, or mediation effects, among the variables being studied. By using this framework, the research can test the direct effects of compensation on all relevant variables and analyze the mediating roles played by employee well-being and organizational commitment. Overall, this framework allows for comprehensive hypothesis testing while providing deeper insights into how compensation can affect employee performance.

METHODS

This research uses a quantitative approach with a cross-sectional survey design because it allows for the collection of data from a large sample at a single point in time to test the relationships between variables (Hobfoll et al., 2018). The research population is employees of the manufacturing industry in the West Java region. The sampling technique uses proportional stratified random sampling to ensure adequate representation from various employee levels, and the sample size is determined using the slovin formula 5% (Xu et al., 2017). The research instrument uses a questionnaire with a 5-point Likert scale, whose validity is tested by examining the construct validity: Confirmatory Factor Analysis (CFA) and Convergent validity: Average Variance Extracted (AVE) > 0.5 (Prediger et al., 2019), and the

reliability test is based on Cronbach's Alpha > 0.7 (Taber, 2018). Analysis of research data through inferential descriptive statistical tests, Structural Equation Modeling (SEM) (Hair et al., 2021).

RESULTS

The research population involves 500 employees from the manufacturing sector in West Java. This population is grouped based on gender (male and female) as well as job level, namely upper level (general manager, manager, assistant manager), middle (senior supervisor, supervisor), and lower (senior staff, staff). The characteristics of the population and sample of this research presented in Figure 1 and 2. This clustering allows for a more focused analysis to understand how compensation systems, employee welfare, organizational commitment, and individual work performance vary at each layer of the organization.

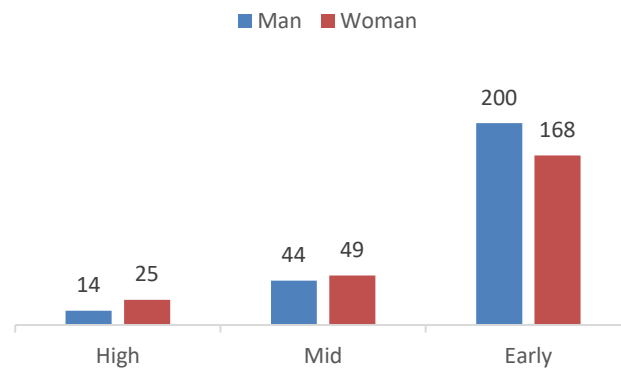


Figure 1. Research population data based on job position

From the described population, the sample distribution for the research was taken using the Slovin formula with a 5% margin of error. From the total population, 303 respondents were selected and proportionally divided based on gender and job level. This well-distributed sample provides a sufficient representation to explore the dynamics of the compensation system across various organizational hierarchy groups.

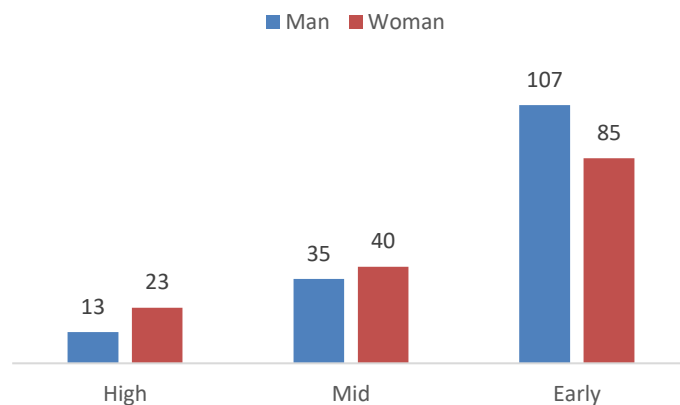


Figure 2. Research sample data based on job position

The obtained data were analyzed using SmartPLS, which included testing the reliability and validity of the data. The analysis results show a significant relationship between the main research variables, namely compensation system, employee welfare, organizational commitment, and individual work performance. This approach uses the SEM model to comprehensively map the relationships between variables.

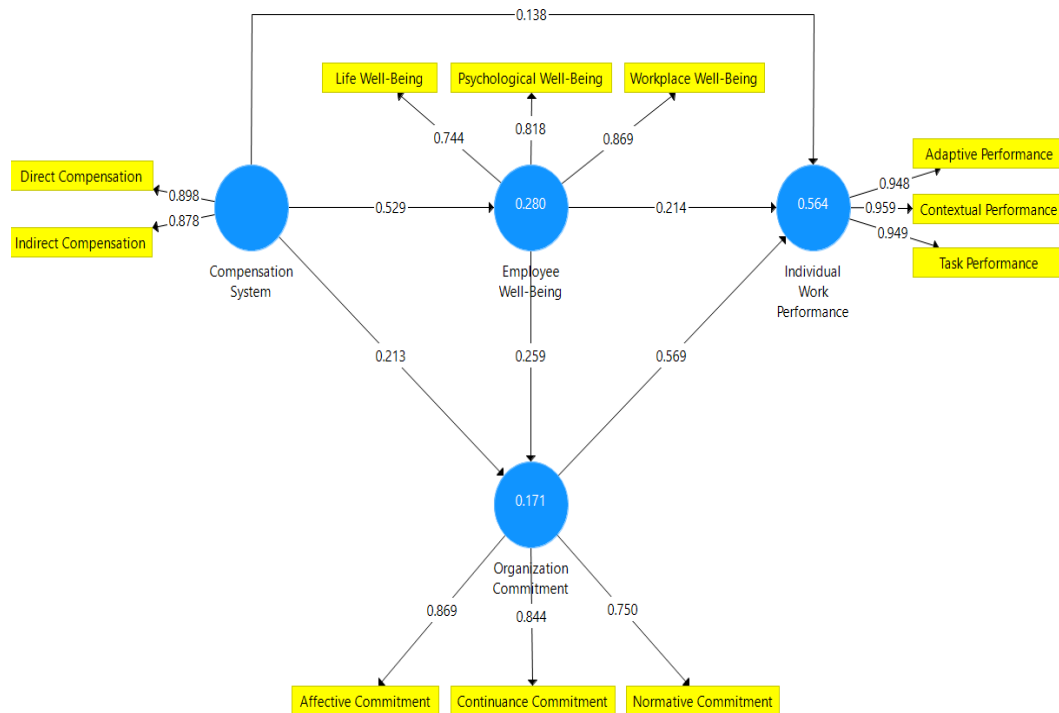


Figure 3. Results of data analysis using SmartPLS 3.0

In Figure 3, it shows a positive and significant relationship between the Compensation System and Employee Well-being (p -value < 0.001), as well as a significant influence of Employee Well-being on Individual Work Performance (p -value < 0.001).

Table 1. Results of Construct Reliability and Validity Analysis

	Cronbach's Alpha	rho_A	Composite Reliability	AVE
Compensation System	0.732	0.736	0.882	0.788
Employee Well-Being	0.739	0.747	0.853	0.659
Individual Work Performance	0.949	0.953	0.967	0.906
Organization Commitment	0.778	0.865	0.862	0.677

Based on the Table 1, all constructs meet the criteria for good reliability and validity. The Cronbach's Alpha values for all variables are above 0.7 (Taber, 2018), and the Composite Reliability for each construct is also above 0.7 (Hair et al., 2021). Furthermore, the AVE values for all variables are above 0.5, which means that these constructs have sufficient convergent validity. These results indicate that the research measurement tools have been adequately designed to measure the relationships between variables, allowing the analysis results to be interpreted with a high level of confidence.

Table 2. Results of path coefficients analysis

	Original Sample	Sample Mean	Standard Deviation	t-Statistics	P Values
Compensation System -> Employee Well-Being	0.529	0.538	0.052	10.190	0.000
Compensation System -> Individual Work Performance	0.138	0.138	0.053	2.585	0.010
Compensation System -> Organization Commitment	0.213	0.230	0.063	3.363	0.001
Employee Well-Being -> Individual Work Performance	0.214	0.208	0.053	4.061	0.000
Employee Well-Being -> Organization Commitment	0.259	0.256	0.058	4.458	0.000
Organization Commitment -> Individual Work Performance	0.569	0.573	0.056	10.108	0.000

Path coefficients reflect the magnitude of the direct influence between variables, while the t and p statistical values indicate the significance of the relationship. Based on this table, all relationships between the main variables have a high level of significance ($p < 0.05$), indicating that the statistically tested relationships are acceptable (Hair et al., 2021). Overall, Table 2 provides empirical evidence that compensation systems, employee welfare, and organizational commitment significantly affect individual work performance, with clear causal relationships.

The outer loadings values in Table 3 have values >0.7 , indicating that these indicators have a significant contribution in explaining their constructs (Hair et al., 2021). This is in line with the reflective model development approach in Structural Equation Modeling, which emphasizes the importance of indicator validity to consistently measure the construct. This is in line with the reflective model development approach in Structural Equation Modeling, which emphasizes the importance of indicator validity to consistently measure constructs (Henseler et al., 2015).

Table 3. Results of the outer loadings analysis

	Compensation System	Employee Well-Being	Organization Commitment	Individual Work Performance
Direct Compensation	0.898			
Indirect Compensation	0.878			
Life Well-Being		0.744		
Psychological Well-Being		0.818		
Workplace Well-Being		0.869		
Affective Commitment			0.869	
Continuance Commitment			0.844	
Normative Commitment			0.750	
Adaptive Performance				0.948
Task Performance				0.949
Contextual Performance				0.959

Table 4. Results of latent variable correlations analysis

	Compensation System	Employee Well-Being	Individual Work Performance	Organization Commitment
Compensation System	1.000	0.529	0.450	0.350
Employee Well-Being	0.529	1.000	0.498	0.371
Individual Work Performance	0.450	0.498	1.000	0.696
Organization Commitment	0.350	0.371	0.696	1.000

Table 5. Results of discriminant validity analysis using the Fornell-Larcker criterion

	Compensation System	Employee Well-Being	Individual Work Performance	Organization Commitment
Compensation System	0.888			
Employee Well-Being	0.529	0.812		
Individual Work Performance	0.450	0.498	0.952	
Organization Commitment	0.350	0.371	0.696	0.823

Table 6. Results of discriminant validity cross loadings analysis

	Compensation System	Employee Well-Being	Individual Work Performance	Organization Commitment
Adaptive Performance	0.397	0.570	0.948	0.661
Affective Commitment	0.344	0.449	0.736	0.869
Contextual Performance	0.508	0.474	0.959	0.689
Continuance Commitment	0.311	0.219	0.499	0.844
Direct Compensation	0.898	0.471	0.381	0.397
Indirect Compensation	0.878	0.469	0.421	0.217
Life Well-Being	0.467	0.744	0.320	0.311
Normative Commitment	0.156	0.146	0.372	0.750
Psychological Well-Being	0.336	0.818	0.445	0.275
Task Performance	0.374	0.367	0.949	0.635
Workplace Well-Being	0.478	0.869	0.446	0.317

According to Fornell & Larcker (1981), the evaluation of discriminant validity requires that the correlation values between constructs must be smaller than the square root of the AVE of each construct. The compensation system has a correlation of 0.529 with employee well-being, indicating a moderate positive relationship. A smaller correlation is observed between the compensation system and organization commitment at 0.350, indicating a positive but weak relationship. On the other hand, the relationship between organization commitment and individual work performance has a higher correlation, namely 0.696, reflecting a strong positive relationship.

Furthermore, discriminant validity is considered achieved if the square root of the Average Variance Extracted (AVE) value for each construct is greater than the correlation between that construct and other constructs (Fornell & Larcker, 1981). Based on the data in Table 5, each construct has an AVE square root value higher than its correlation with other constructs, indicating that each construct in this study has adequate discriminant validity. With the fulfilled discriminant validity, the analysis results become more reliable because the model avoids multicollinearity issues that can obscure the relationships between constructs (Hair et al., 2021).

Furthermore, the cross loadings' discriminant validity of the indicators is considered achieved if the construct value is greater than the correlation value with other constructs (Chin, 1998). The results of the analysis in Table 6 show that these indicators clearly reflect their respective constructs without significant overlap with other constructs. Therefore, this analysis provides a strong basis for concluding that the research model has been well-designed and can provide an accurate interpretation of the relationships between variables.

Table 7. Total effects analysis results

	Compensation System	Employee Well-Being	Organization Commitment	Individual Work Performance
Compensation System		0.529	0.350	0.450
Employee Well-Being			0.259	0.361
Organization Commitment				0.569
Individual Work Performance				

Based on Table 7, it is fully illustrated how the variables in the model influence each other as a whole. For example, the compensation system has a total effect on employee well-being of 0.529, reflecting the direct positive impact of the compensation system on employee well-being. Additionally, the total effect of the compensation system on individual work performance is 0.450, indicating that although its

direct effect is relatively smaller (0.138), the indirect effect through employee well-being significantly contributes to individual work performance. Employee well-being has a total effect on individual work performance of 0.361, indicating that employee well-being has a moderate influence on individual work performance.

Table 8. R square analysis results

	R Square	R Square Adjusted
Employee Well-Being	0.280	0.278
Individual Work Performance	0.564	0.560
Organization Commitment	0.171	0.165

Table 9. Results of the f square analysis

	Compensation System	Employee Well-Being	Organization Commitment	Individual Work Performance
Compensation System		0.3894	0.0394	0.0303
Employee Well-Being			0.0581	0.0712
Organization Commitment				0.6158
Individual Work Performance				

Based on Table 8, the R-square value of individual performance is 0.564. This value indicates that the model is explained by 56% of the variability of the independent variables. Furthermore, the employee well-being value is 0.280, indicating that this model can explain approximately 28% of the variance in employee well-being. Meanwhile, the R Square value for organization commitment is 0.171, which indicates that this model only explains 17% of the variance in organizational commitment.

Meanwhile, the f-square analysis aims to measure the extent of change in R-square due to the influence of certain independent variables, and is used to assess the strength of the effect of the variables included in the model. An f-square value greater than 0.35 indicates a large effect, between 0.15 and 0.35 indicates a medium effect, and less than 0.15 indicates a small effect. Based on Table 9, the f-square value for the compensation system on employee well-being is 0.3894, which indicates a large effect and suggests that the compensation system has a significant impact on employee well-being. Meanwhile, for Individual work performance, the influence of employee well-being has an f-square value of 0.0712, indicating a moderate effect, meaning that although there is a positive influence of well-being on performance, the effect is not very strong. Furthermore, the f-square value for organization commitment towards individual work performance is 0.6158, which indicates that organizational commitment has a significant impact on individual work performance.

Table 10. Summary of model fit analysis results

	Saturated Model	Estimated Model
SRMR	0.102	0.102
d_ULS	0.681	0.681
d_G	0.398	0.398
Chi-Square	711.159	711.159
NFI	0.690	0.690

Overall, Table 10 indicate that this research model has a good fit with the data used, although there are some indicators suggesting that the model can still be improved. This model fit analysis is important in SEM research, where a good model not only needs to have significant relationships between variables but also statistical fit with the data used (Hair et al., 2021; Henseler et al., 2016).

DISCUSSION

This research explores the complex dynamics of the relationship between compensation systems, employee well-being, organizational commitment, and individual performance in the context of the manufacturing industry in West Java, set against the backdrop of the VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) era and post-COVID-19 pandemic challenges. The analysis results show that the compensation system has a significant impact on employee well-being, which is in line with the theoretical perspective discussed. This supports the argument that compensation is not merely a payment mechanism, but rather a strategic instrument for building employee well-being. The research findings confirm the view of A. K. Othman, et al., 2021, which emphasizes that a good compensation system not only affects individual performance but also has a positive impact on the organization.

Employee well-being, measured through three dimensions (life well-being, workplace well-being, and psychological well-being) according to the framework by (Zheng et al., 2015), turns out to play a significant mediating role. Employee well-being can reduce negative effects such as absenteeism and employee turnover, as well as improve performance. Organizational commitment, measured using the Organizational Commitment Questionnaire (OCQ), shows a positive correlation with employee well-being. These findings support the perspective of Sun et al., (2021b), on the importance of fostering strong organizational commitment to navigate uncertainty, especially in the context of the manufacturing industry in West Java, which is undergoing economic transformation.

Overall, this research provides empirical contributions to the understanding that compensation is not merely a transactional mechanism, but a strategic instrument for building a sustainable work ecosystem, in line with the spirit of the Sustainable Development Goals (SDGs) initiated by the UN to create a better and more equitable work environment. Interestingly, this study found that the direct influence of compensation on individual performance and organizational commitment is relatively weak, but through employee well-being, its impact becomes more significant. This aligns with the context of the VUCA era discussed in the introduction, where organizations are required to be more complex in building a supportive work ecosystem.

This study uses a cross-sectional survey design that only collects data at one point in time. This approach limits the ability to capture the dynamics of relationships between variables longitudinally or changes that occur over the long term. Furthermore, the research can be expanded to other sectors, such as the service or education sectors, as well as broader geographical areas in Indonesia, making the results more generalizable and nationally relevant. Furthermore, further research is needed to incorporate other moderating or mediating variables, such as leadership style, organizational culture, organizational justice, organizational resilience, innovation capability, or digital readiness, to produce a more holistic model and understand the broader context of the relationships between variables.

CONCLUSION

The era of volatility, uncertainty, complexity, and ambiguity (VUCA) and the post-COVID-19 pandemic impact have posed significant challenges for organizations in managing human resources. This research aims to explore how compensation systems, employee well-being, organizational commitment, and individual performance. The unique finding of this study is that the direct impact of compensation on individual performance is relatively small, but the mediating effect through employee well-being becomes more significant. This research provides empirical contributions that compensation is not merely a mechanism of financial transactions, but a strategic instrument in building a sustainable work ecosystem, in line with the SDGs goals. The main conclusion underscores the importance for organizations to integrate fair compensation strategies with efforts to enhance employee well-being and commitment for sustainable competitiveness.

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