

Does the working environment matter? The mediating influence of the working environment between compensation and employees' performance

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Abstract

Purpose: The current research aimed to explore the mediating role of the working environment in the association between compensation and employee performance. The study established specific objectives, focusing first on assessing the impact of compensation on the performance of employees in the banking sector. The second objective was dedicated to investigating the mediating role of the working environment between compensation and employee performance within selected banks in Dera Ismail Khan.

Design/Methodology/Approach: A total of 291 participants, drawn from a pool of 1045 employees in the banking sector within the Dera Ismail Khan region, were included in the study. Utilizing self-designed questionnaires, distributed and collected on-site, 281 responses were considered suitable for subsequent statistical analysis. Data analysis was conducted using SPSS version 26, employing both descriptive and inferential statistics aligned with the research objectives. Frequency tables, percentages, and means were computed to interpret the data substantively.

Findings: Inferential statistics, specifically the Pearson correlation coefficient (r), were employed to ascertain the existence of a significant relationship between independent variables (compensation types: Extrinsic, intrinsic), the mediating variable (working environment), and the dependent variable (employee performance). The significance level for analysis and interpretation was set at 0.05.

Research Limitations: The study, conducted in both public and private banks of Dera Ismail Khan from October 2023, revealed that both intrinsic and extrinsic components of compensation significantly impacted employee performance. Additionally, intrinsic and extrinsic rewards emerged as crucial predictors, with the working environment demonstrating a significant effect on employee performance.

Practical Implications: Based on the findings, the researcher recommended initiatives such as increasing employee pay, promotions, and increments, maintaining cooperation among coworkers, ensuring timely promotions, and fostering a cooperative working environment. These recommendations aim to enhance organizational performance by positively influencing employee satisfaction and performance.

Keywords: Compensation, Intrinsic, Extrinsic, Working Environment, Employee Performance

I. INTRODUCTION

Numerous experts and analysts view the banking industry as a critical economic growth factor. The role of banks in emerging nations like Pakistan is also seen as a key factor in how the economy develops. In this regard, Pakistan has a variety of public and private banks that carry out the same duties by contributing to the development, as mentioned earlier (Agustine and Nawangsari, 2020). The contribution of banks to the growth of the nation in comparison to other national sectors. Similarly, these banks' human resources (workers) are crucial to their success since they cannot meet their targeted goals and standards without them. In this sense, staff performance is a crucator of these institutions' success (Al-Douri et al., 2020). Therefore, the current study aims to investigate potential influences on employee performance. As a result, incentives are seen by many studies as essential factors in determining how well employees perform.

The way job tasks are carried out per a predetermined job description clearly defines an employee's performance. The ability to execute an assignment within specific parameters is called performance. Therefore, various dynamics mark employee performance (Ali et al., 2016). These factors form the study's central subject. The problem is the effects of moving performance on the workplace in Pakistan. Employees are one of the most crucial elements that directly affect the growth and progress of an organization in the banking industry (Alkandi et al., 2023). As employee performance is vital for organizations, management must consider improving staff performance in concerned banks by

motivating them to do their responsibilities successfully and efficiently. Therefore, paying bank workers is vital as it may alter their behavior positively (Anggraeny et al., 2023). Managers think that by rewarding employees at work, they would be able to see significant results in the relevant banks.

According to the literature, moral personnel are essential for honing learning processing quality and efficient operation of the financial system. A setting conducive to work encourages employees to put up their best effort in completing assigned duties. Employees have long sought improved satisfaction, morale, and productivity (Apriyanti et al., 2021). Employee skill, knowledge, and ability development are essential for efficient task processing and execution. Employees must improve their skills and potential to provide consumers with excellent services. A detailed assessment of these elements should be part of an active development strategy for employees to encourage critical mindsets and abilities in future workers (Apriyanti et al., 2021). Only when their workers exhibit their very best talents and skills to carry out their responsibilities enthusiastically will the banks secure their desired position in the competitive environment.

The implementation of sanctions by management is crucial as it has a significant impact on the attitudes and behaviors of employees within the banking sector. The staff members demonstrate their dedication to the duties and responsibilities they have been given, and they go above and beyond to see that they are completed. These will afterward assist the current employees in displaying their professional behavior and a good attitude (Astuti et al., 2020). This study examines how bonuses affect bank employees' productivity in Dera Ismail Khan. Many workers were motivated by this desirable line of work since it allowed for lifetime employment and membership and offered services to the general public. It was driven by three goals, including the impact of incentives and the workplace on workers' performance (Bibi et al., 2016). The study was based on the straightforward assumption that participants would be inclined to submit information objectively and honestly, yet this remained challenging due to the existence of incentive gaps. Although a good working environment and a fair wage were not truly there, employees did their tasks well and produced the expected results. In light of this issue, research is being proposed to determine the impact of intrinsic and extrinsic rewards and the workplace environment on employees' performance in banks in Dera Ismail Khan. This study highlighted the importance of employees, who play a crucial role in the growth of any nation, including Pakistan. Therefore, it is necessary to inspire the workforce for this performance to succeed lightly. The study aims to investigate the mediating effect of the workplace in the relationship between incentives and penalties and workers' job performance. Therefore, information was gathered from the banking sector's personnel in Dera Ismail Khan to empirically evaluate and analyze the study's factors to draw a more thorough conclusion and discover the answers to the research questions.

I.I PROBLEM STATEMENT

The growing imperative for organizations to establish effective reward systems that enhance employee motivation and elevate organizational performance has been well-established (Efendi et al., 2020). However, determining the optimal components of an employment package that can drive performance within the commercial banking sector remains a complex challenge (Elvie, 2019, Fahlevi, 2021). In Pakistan, various reward packages encompassing monetary (extrinsic) and non-monetary (intrinsic) elements are used. For instance, financial rewards, such as salary increments, are crucial for employee satisfaction (Gunawan and Amalia, 2015). Yet, in Pakistan, limited attention has been devoted to comprehending the impact of the work environment on employee and organizational performance.

Several studies have examined reward systems and working environments, including research within the Pakistan cement industry (Hafeez et al., 2019), the Nigerian manufacturing industry (Sajuyigbe, Bosede, and Adeyemi, 2013), Bangladesh commercial banks (Hendrawijaya et al., 2018), and Malaysian universities (Hermawati and Mas, 2017). These studies have consistently revealed that, in the contemporary workplace, employees, including those in the banking sector, draw motivation from both intrinsic (internal) and extrinsic (external) rewards to enhance their work performance. Consequently, managers should not disregard either category of reward system when seeking to motivate employees to improve performance. In most of these studies, each element within both extrinsic and intrinsic reward systems emerged as highly significant in influencing employee performance (Ingsih et al., 2021). This research addresses the knowledge gap by exploring the working environment's mediating role in the relationship between compensation and employee job performance, specifically within commercial banking organizations in Dera Ismail Khan, Pakistan.

2. LITERATURE REVIEW

Compensation

Rewards are vital in achieving a highly competitive edge in the modern competitive environment when institutions confront twin difficulties concerning their survival and long-term growth. For institutions to be successful, they need to be able to recruit and keep a staff that is competent, skilled, motivated, and gifted (Karoso et al., 2022). In reality, "reward" refers to something of value provided in exchange for performance or production that meets the requirements. The association between particular rewards and efforts must be generalized to encourage the recurrence of recognizable rewards (Khan et al., 2011). Institutional awards for workers boost morale and enable enthusiastic performance (Khan et al., 2012). According to the literature, giving employees more extensive compensation packages, incentives, and privileges motivates them to work hard. All of these assist the banks in keeping the best and brightest

employees on staff and enabling them to meet the required requirements (Khtatbeh et al., 2020). Reward has been overlooked in earlier decades due to its origin's visual dissimilarity. Rewards indicate that specific conservational incentives can stimulate reactions to approaches employed to change people's behavior (Kim and Choi, 2018). Positive encouragement is beneficial in enhancing people's attitudes and behaviors towards the set goals. Developing and supporting a behavioral pattern by suggesting a reward whenever a performance is displayed is known as encouraging support (Kumari et al., 2021). Employees must consistently exhibit the same behavior to meet the acceptable criteria. Negative reinforcement will result when the desired behavior is not managed correctly (Kurniawanto et al., 2022). This will guide the workers by avoiding the relevant and assigned obligations that are anticipated to impact how people behave at their places of employment.

Extrinsic Reward

The incentives (extrinsic) are often the material and monetary advantages that concerned organizations and managers give their employees, such as bonuses, salaries, promotions, and fringe perks. Since they are unrelated to the contributions of the work and other people, these benefits are extrinsic. These benefits played a significant part in inspiring the workforce to achieve the intended goals. (Mardiyanti et al., 2018). Extrinsic incentives are a motivating strategy many organizations use to improve employee performance. When interpreted literally, the choice means that compensation increases spur experienced workers to put in more effort rather than enhancing the caliber of new advancements (Nasution et al., 2019). Since this study appears to corroborate the claim that employees' performance may be boosted through extrinsic rewards, the study's implications for performance-based reward programs are significant (Nasution et al., 2019). Extrinsic rewards are external, concrete compensation for the responsibilities and efforts of the employee, which results in salary/pay, promotions, job stability, and incentive bonuses.

Intrinsic Reward

Intrinsic incentives are essential to motivate and encourage employees to play a more significant part in achieving organizational goals. In organizations, particularly banks, intrinsic incentives symbolize internal motivation for obtaining the desired status in a cutthroat atmosphere. These incentives might include delegating, praise, and gratitude, all of which significantly influence how the personnel involved behave when completing their tasks (Nasution et al., 2019). It will eventually increase their commitment and attention to their assigned work when the concerned employee receives gratitude and recognition from the concerned supervisor/manager (Newman et al., 2019). Numerous experts believe that intrinsic incentives might help employers encourage their staff to achieve the desired status in the cutthroat market. According to the relevant literature, intrinsic incentives significantly influence how well workers perform regarding their work attitudes and behaviors in organizations/banks (Paramita and Supartha, 2022).

Working environment

The term “environment” refers to the ambiances and influences surrounding and affecting humans throughout their lives. In the workplace, people gather their efforts to advance the organization’s goals (Pawirosumarto et al., 2017). It refers to all elements that interact with workforces and impact how sound employees perform negatively or favorably. It is possible to pinpoint the exact spot where a task is completed. When considering employment location, the work environment considers both the physical location and the immediate surroundings, such as an office block or construction site (Pio, 2022). Other naturally occurring characteristics of job locations include the air quality, noise level, additional employment advantages and perks like limitless coffee or free child care, and appropriate space (Rasheed et al., 2020). Commercial banks and the banking industry in Pakistan are growing. These are assessed to be an active sector for companies and people, and they are evolving into one that is difficult in every way.

Physical Aspects

Physical characteristics of the workplace consistently impact employees’ morale, job satisfaction, productivity, focus, safety and health, and general well-being inside organizations/banks. Long working hours, workplace layout, equipment design, furniture, space, quality, noise, light, ventilation, temperature, air quality, radiation, and vibration are all variables that may be measured at the workplace (Riyanto et al., 2021a). More investigation is required to uncover the physical traits unique to the workplace that may influence subsequent and health-related work behavior-related features such as employee turnover, absenteeism, worker productivity, and job satisfaction (Riyanto et al., 2021b). It is crucial to remember that there is a strong emphasis on the effects of noise from windows on workers’ health and performance in non-industrial, specific office environments (Rubel et al., 2021). According to (Saban et al., 2020), stress supports research that is anticipated to provide helpful evidence for identifying and accepting the distinct effect of physical job features and surroundings on employees’ behavior and well-being.

Non-Physical Aspects

The non-physical aspects of the office environment may have a supplementary impact on workers’ comfort, job satisfaction, morale, productivity, safety, and health. Support from supervisors, stress at work, and communication between the company and workers are all significant aspects of the workplace that should be considered. Thus, several studies showed that the work environment (physical and non-physical labor) significantly impacts employees’ performance, whether concurrently or partially (Siddiqi and Tangem, 2018). One of the key elements in boosting an organization’s effectiveness is motivation. Several literal problems inspire creativity, such as a component’s non-physical and physical systems. Several modifications support the idea that both physical and non-physical factors may have a substantial impact on effectiveness. The study examines ten non-physical and eleven physical occurrences in the setting of various businesses engaged in manufacturing, service, and educational activities (Siregar and

Suma, 2022). The study specifies the most and least significant non-physical and physical impacts based on multiple empirical findings.

Employees Performance

Performance is often a sign of a company's feasibility to predetermined goals. Performance arises from the qualitative and quantitative dimensions of efforts to reach the goal. The only outcome will be high-quality services if the personnel provide everything they have (Siregar and Suma, 2022). Employees' professional position in the relevant institutions is frequently disregarded in underdeveloped nations like Pakistan. Institutions must emphasize the elements necessary for students' professional development (Siswanto et al., 2021). The most crucial factors, among many others, are incentives, penalties, and an environment that is favorable, encouraging, and helpful. To get the appropriate performance levels from staff, these institutions must pay more attention to the elements above (Submitter et al., 2021). The institutions must also keep up with some well-coordinated efforts made by their staff members to increase employee commitment and satisfaction by encouraging them to put in extra effort.

H1: There is a statistically significant and positive relationship between compensation, working environment, and employee performance.

H2: The working environment mediates the relationship between compensation and employee performance.

3. RESEARCH METHODOLOGY

The research methodology refers to the organized procedure used to conduct a study and collect relevant data to achieve the study's goals. It provides a framework for gathering, analyzing, and interpreting data, ensuring the accuracy and dependability of the research findings. Regarding the essay, *Does the workplace matter?*, the working environment's mediating impact on the relationship between pay and employee performance. The purpose of the current study was to explore the relationships between the research variables "compensation, working environment, and employee performance," utilizing a quantitative research approach based on a survey technique. The research, which had a positivist stance, aimed to collect and analyze quantitative data to examine the statistical correlations between these components. Following a deductive process, this study gathered relevant data, developed a theoretical framework, generated hypotheses, employed statistical techniques, and came to conclusions. The study's target population was the 1045 workers of several banks in the Dera Ismail Khan area. After calculating the appropriate sample size, a statistical approach was employed to choose a sample of 291 people (Yamani et al., 1967). After sending 291 questionnaires to the individuals, 281 completed surveys were eventually gathered and included in the study. The study included a range of methods, including a

thorough literature analysis to look at the perspectives of many experts. A data reduction technique was also used with SPSS V26 to condense the survey replies into a digestible dataset. The data were coded, and descriptive statistics like means were calculated to help in future studies. This study used a quantitative research methodology, a survey, and statistical analytic methods to shed light on the relationships between pay, work environment, and employee performance. The findings contribute to the body of knowledge and impact understanding and motivating employee performance.

4. RESULTS OF THE STUDY

The study's results section provides findings from several approaches, including descriptive statistics and analyses that examined associations through correlation and mediation. The objectives of this part are to provide a thorough understanding of any potential relationships between the phenomena under discussion and to draw appropriate conclusions.

Descriptive Statistics and Correlation Analysis

Descriptive statistics offer a comprehensive understanding of the research variables by providing essential information about the study description. This includes analyzing the sample, calculating metrics like the mean, highest, and lowest response rates, and estimating the standard deviation.

Correlation analysis is essential in revealing the strength and direction of correlations between research variables in a particular setting. It helps determine the strength of strong and weak connections and whether they are advantageous or disadvantageous.

Table 4.I Descriptive Statistics and Correlation Matrix

		Mean	Std. Deviation	CP	WE	EP	
CP	Pearson	3.8617	.48270	I			Table 4.I As shown in the table above, compensation has a mean value of approximately 3.8617, which suggests that, on average, the compensation level falls
	Correlation						
	Sig. (2-tailed)						
WE	N			281			
	Pearson	3.7978	.43967	.373**	I		
	Correlation						
EP	Sig. (2-tailed)			.000			
	N			281	281		
	Pearson	3.8158	.80315	.565**	.472**	I	
	Correlation						

Sig. (2-tailed)	.000	.000		around this
N	281	281	281	value in the dataset. The

standard deviation of 0.48270 indicates that the compensation values are tightly clustered around the mean, with limited variability. Similarly, the mean and standard deviation for Working Environment and Employees Performance provide insights into their distributions. Working Environment has a mean of 3.7978 and a standard deviation of 0.43967, indicating relatively less variability than employee performance, which has a mean of 3.8158 and a higher standard deviation of 0.80315, suggesting more variation in the data points.

The table 4.I also reveals the Pearson correlation analysis among the variables Compensation (CP), Working Environment (WE), and Employee Performance (EP). The correlation coefficients and significance levels (p-values) indicate the strength and statistical significance of the relationships between these variables. The correlation coefficient between Compensation (CP) and Working Environment (WE) is 0.373, suggesting a moderate positive correlation between these variables. This means that as compensation increases, there is a tendency for the working environment to improve as well, and vice versa. The correlation coefficient between Working Environment (WE) and employee performance (EP) is 0.472, indicating a moderate positive correlation. This suggests that a better working environment is associated with higher employee performance. The coefficient between Compensation (CP) and employee performance (EP) is 0.565, indicating a moderate positive correlation. This means that as compensation increases, there is a tendency for employees' performance to improve as well. The results suggest significant positive associations between compensation, working environment, and employee performance in the studied sample. Thus, the hypothesis is accepted.

Mediation Analysis

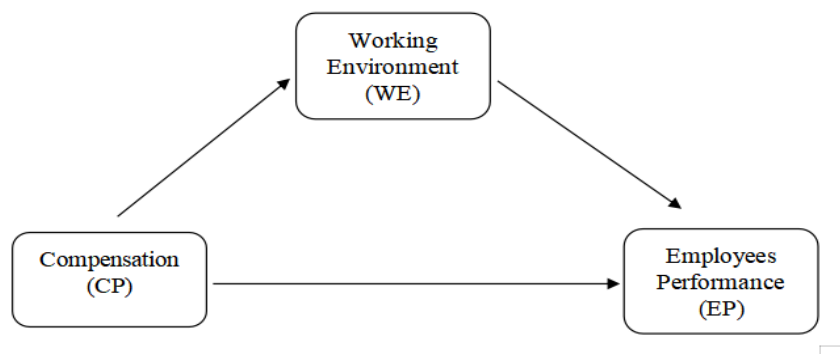


Figure 2.I Mediation Model

Table 4.2: Summary of the mediation model

Model Summary					
R	R-sq	F	Df1	Df2	p
.7779	.6051	538.7890	1.0000	328.0000	.0000

Path	Coefficient	p-value
CP→WE (a1)	.4149	.0000
WE→EP (b1)	.3803	.0031
CP→EP (c1)	.7318	.0000
CP→WE→EP (c1')	.5741	.0005

CP=Compensation, WE=Working Environment, EP= Employees Performance.

Table 4.2 provides the statistical analysis results, likely involving regression and mediation analysis. The correlation coefficient (Pearson correlation) is 0.7779. It measures the strength and direction of the linear relationship between the independent variable Compensation (CP) and the dependent variable employee performance (EP) when considering the mediation effect of the Working Environment (WE). The coefficient of determination is 0.6051, indicating that approximately 60.51% of the variance in employee performance (EP) can be explained by the independent variables Compensation (CP) and the mediator Working Environment (WE). The F-statistic is 538.7890. It is used to test the overall significance of the regression model, and in this case, it suggests that the model is highly significant. The p-value is 0.0000, indicating that the regression model is statistically significant at a very high confidence level ($p < 0.0001$).

Path Coefficients:

CP→WE (a1): The path coefficient representing the relationship between Compensation (CP) and Working Environment (WE) is 0.4149. This indicates that a unit change in compensation is associated with a 0.4149 unit change in the Working Environment. **WE→EP (b1):** The path coefficient representing the relationship between Working Environment (WE) and Employees Performance (EP) is 0.3803. This indicates that a unit change in the Working Environment is associated with a 0.3803 unit change in employee performance.

CP→EP (c1): The path coefficient representing the direct relationship between Compensation (CP) and employee performance (EP) is 0.7318. This indicates that a unit change in compensation is associated with a 0.7318 unit change in employee performance without considering the mediation effect of the Working Environment. **CP→WE→EP (c1'):** The path coefficient representing the indirect relationship between Compensation (CP) and employee performance (EP) through the mediation of the Working Environment (WE) is 0.5741. This indicates that a unit change in compensation leads to a 0.5741 unit change in employee performance through the influence of the Working Environment.

The p-values associated with each path coefficient indicate the statistical significance of the relationships. A p-value less than 0.05 is commonly used as a threshold for statistical significance. For all path coefficients (aI, bI, cI, and cI'), the p-values are very low (less than 0.05), indicating that each relationship is statistically significant. The results suggest that Compensation (CP) directly and indirectly affects employee performance (EP). The Working Environment (WE) partially mediates the relationship between compensation and employee performance. The overall regression model is highly significant, and the mediation analysis helps to understand how the Working Environment plays a role in the relationship between compensation and employee performance.

Table 4.3 Summary of the Direct, Indirect, and Total Effect

Relationships	Total effect	Direct Effect	Indirect Effect	Confidence Interval		Conclusion
				Lower Bound	Upper Bound	
Compensation > working environment > Employee performance	.7318 (0.000)	.5741 (.0005)	.1577 (.000)	.0069	.0719	Partial mediation

Table 4.3 shows a mediation analysis investigating the relationships between Compensation, Working Environment, and employee performance. In this case, the relationship is described as “Compensation > Working Environment > Employees Performance,” meaning that compensation impacts the Working Environment, which, in turn, affects employee performance. The total effect represents the overall influence of the independent variable (Compensation) on the dependent variable (Employee performance) when considering both the direct and indirect effects through the mediator variable (Working Environment). The total effect is given as 0.7318. The direct effect represents the impact of the independent variable (Compensation) directly on the dependent variable (Employee performance) without considering the mediator variable (Working Environment). The direct effect is given as 0.5741. The indirect effect represents the influence of the independent variable (Compensation) on the dependent variable (Employee performance) that is transmitted through the mediator variable (Working Environment). The indirect effect is calculated as the difference between the total and direct effects: $0.7318 - 0.5741 = 0.1577$. The conclusion indicates the outcome of the mediation analysis based on the results. It states, “Partial mediation,” suggesting that the Working Environment partially mediates the relationship between compensation and employee performance, which means that a portion of the effect of compensation on employee performance is transmitted through the Working Environment. At

the same time, there is still a direct effect of compensation on employee performance that the Working Environment does not explain.

5. DISCUSSION

Hypothesis I: *“There is a significant association between compensation, working environment, and employees’ performance.”*

The findings from the correlation analysis substantiate the validity of Hypothesis I. The correlation coefficients between Compensation (CP) and Working Environment (WE), Working Environment (WE) and employee performance (EP), and Compensation (CP) and employee performance (EP) are all statistically significant with p-values less than 0.001. This indicates that there are positive and significant associations between these variables. The positive correlation between Compensation and Working Environment ($r = 0.373$) suggests that as compensation increases, there is a tendency for the working environment to improve as well. This finding is consistent with the idea that organizations that invest in better compensation packages may also provide a more favorable working environment to attract and retain employees. The positive correlation between Working Environment and employee performance ($r = 0.472$) indicates that a better working environment is associated with higher employee performance. This finding aligns with research that suggests a positive work environment, characterized by supportive management, good relationships among coworkers, and appropriate resources, can enhance employee morale and motivation, leading to improved performance.

Furthermore, the positive correlation between compensation and employee performance ($r = 0.565$) indicates that employees’ performance also tends to improve as compensation increases. This suggests that offering competitive compensation packages can positively influence employee motivation and commitment to their roles, leading to better job performance. The findings of the current study were consistent with (Rasheed et al., 2020), (Aman-Ullah et al., 2023), (Saputra and Suwandana, 2020), (Hafeez et al., 2019, Kurniawanto et al., 2022)

Hypothesis 2: *“Working environment mediates the relationship between compensation and employees’ performance.”*

Although the correlation analysis supported Hypothesis I by demonstrating significant associations between the variables, the mediation hypothesis (H2) requires additional testing through a formal mediation analysis. Mediation analysis involves assessing the direct and indirect effects of the independent variable (Compensation) on the dependent variable (Employee performance) through the mediator (Working Environment). It helps to determine whether the Working Environment partially or fully mediates the relationship between compensation and employee performance. To fully understand

Hypothesis 2, researchers need to conduct a mediation analysis using the Preacher and Hayes Process macro. This would involve controlling for the direct effect of compensation on employee performance and examining the significance and magnitude of the indirect effect through the Working Environment. As the current analysis only provides correlation coefficients and does not directly address mediation, further research is needed to specifically test the mediating role of the Working Environment between Compensation and employee performance. The current study findings were in line with (Agustine and Nawangsari, 2020), (LARAS et al., 2021), (Anggraeny et al., 2023), (Rasheed et al., 2020).

6. CONCLUSION

The current study examined the relationships between Compensation (CP), Working Environment (WE), and employee performance (EP) in an organizational setting. The analysis involved correlation coefficients and a hypothesis about the mediating role of the working environment. The results provide valuable insights into the associations among these variables and shed light on the factors influencing employee performance.

Hypothesis 1 (H1) posited, “There is a significant association between compensation, working environment, and employees’ performance.” The findings from the correlation analysis supported H1, indicating that there are indeed significant positive associations between these variables. The correlation coefficients revealed statistically significant relationships between CP and WE ($r = 0.373$, $p < 0.001$), WE and EP ($r = 0.472$, $p < 0.001$), and CP and EP ($r = 0.565$, $p < 0.001$). The positive correlation between CP and WE suggests that organizations offering higher compensation tend to provide a more favorable working environment. This aligns with the notion that companies that invest in competitive compensation packages are also likely to prioritize creating an environment conducive to employee well-being and productivity. The positive correlation between WE and EP indicates that a positive working environment, characterized by supportive management, good coworker relationships, and adequate resources, is associated with higher employee performance, which supports previous research that emphasized the importance of a healthy work environment in fostering employee motivation and commitment to their roles, ultimately leading to improved performance.

Moreover, the positive correlation between CP and EP suggests that employees’ performance improves as compensation increases. This highlights the significance of offering competitive compensation packages to enhance employee motivation and job satisfaction, leading to better job performance. In contrast, the results support the significant associations between CP, WE, and EP.

Hypothesis 2 (H2) proposed that “Working environment mediates the relationship between compensation and employees’ performance” requires further examination. Although the correlation analysis provides valuable information about the relationships among the variables, it does not directly

confirm mediation. Mediation analysis is essential to assess the indirect effect of compensation on employee performance through the Working Environment while accounting for the direct effect of compensation. Future research should use appropriate statistical methods, such as regression-based mediation, to test the mediating role of the Working Environment rigorously.

As concluded, the current study contributes to understanding the interplay between compensation, working environment, and employee performance. The results support the existence of significant positive associations between these variables, indicating that organizations should consider the relationship between compensation and the working environment when aiming to enhance employee performance. The findings underscore the importance of investing in competitive compensation packages and fostering a positive working environment to boost employee motivation, job satisfaction, and overall performance. However, for a comprehensive understanding of the mediating role of the working environment, further research using mediation analysis is essential. Employing sophisticated statistical techniques will allow researchers and organizations to gain deeper insights into how compensation influences employee performance via the working environment.

Overall, the study's findings carry important implications for human resource management and organizational practices. Organizations should aim to strike a balance between competitive compensation and a supportive working environment to foster employee engagement and maximize performance outcomes. Future research can build on these findings and delve deeper into the specific factors within the working environment that contribute to improved employee performance. Additionally, conducting longitudinal studies and considering other potential moderators could provide a more nuanced understanding of the dynamic relationships among compensation, working environment, and employee performance over time. Ultimately, organizations prioritizing employee well-being and optimizing the work environment will likely reap the benefits of a more motivated, satisfied, and high-performing workforce.

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