

Unveiling the Impact of Compensation Strategies and Awareness on Employee Performance in NGOs (In the Southwestern Region of Afghanistan)

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Abstract

This study investigates the influence of compensation management and awareness on worker performance within Non-Governmental Organizations (NGOs) (In the Southern Region of Afghanistan). This study divides compensation into two parts: direct and indirect. It is a quantitative study that uses primary information collected through questionnaires. Different NGOs answered 281 questionnaires. Pilot research was conducted before the entire study to investigate whether the corresponding questionnaire was reliable. To dispose of items that do not induce reasonable variance in the Latent variable Confirmatory Factor analysis was implemented. Descriptive and inferential statistics were carried out for further analysis, including correlation and regression analysis. The study's findings indicate that awareness and direct compensation have a strong and significant association with employee performance, but indirect compensation has a weak but positive relationship with employee performance. Regression analysis yielded an adjusted R square of 0.43; translating this value into a percentage, it becomes 43%, indicating that 43% of the variation can be attributed to independent variables (awareness, direct compensation, and indirect compensation). This study suggests that NGOs should increase their knowledge of pay management and provide information about compensation systems and packages to see exceptional employee performance. They should also carefully

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manage their direct compensation packages and maintain a strong structure for this type of pay.

Keywords: Awareness, Direct Compensation, Employee Performance, Indirect Compensation

Introduction

Managers employ others to accomplish their jobs to attain the company's goals. However, utilizing people effectively is complex and necessitates a strategic vision at every management level. A unique area of management called human resources management works by using people to achieve organizational objectives (Faqeerzai, 2022). Human resources management has a variety of tasks, but a vital task of human resources management is reasonable compensation. Compensation should be equal and adequate (Keynan, 2018). Compensation is a helpful tool for increasing worker effectiveness and has a positive influence on both worker behavior and the company's academic achievement. In addition, compensation affects an organization's capacity to attract and retain qualified workers to achieve its goals (Yolande, 2024). According to Oluwaseun (2014), it is anticipated that a well-designed compensation plan will guarantee equity, control pay expenses, guarantee job satisfaction, and inspire personnel. Motivation among workers is significantly impacted by pay. And the alignment of the business strategy with the goals of any organization (Kgoedi & Pillay, 2018). Oluwaseun (2014) highlights the necessity for organizations to make sure that the rewards given are those that the recipients want and deserve, and to tie rewards directly to performance. The true triumph for the company stems from the creativity and aptitude of its workers.

The company's main responsibility is to recognize employees' accomplishments and bestow awards upon them; the purpose of these actions is to inspire and elevate current staff members while also bringing on new hires (Pattanayak, 2014). Compensation has a considerable effect on employee output (Akter & Moazzam, 2016; Alfiyah & Riyanto, 2019; Jean, Ngui, & Robert, 2017; Kadir, AlHosani, Ismail, & Sehan, 2019). However, no such study has been conducted in the southern zone of Afghanistan to demonstrate such implications. Because of this issue, we are here to investigate the connection between compensation and staff member output.

Literature Review

The total of all the perks that employees receive from the company in exchange for their services is their compensation (Aman-Ullah, Aziz, Ibrahim, Mehmood, & Aman-

Ullah, 2023). Everything that an employee receives for their services is called compensation (Faqeerzai, 2022). Financial gain, material services, and all other forms of profit that an employee receives from their relationship with the organization are all considered forms of compensation (Larbi, 2014). For example, compensation refers to an employee's non-financial (such as more vacation time, free healthcare, free journey, or free schooling for kids) or financial advantages (such as insurance, bonuses, pensions, and salaries) (Aman-ullah, Aziz, Ibrahim, Mehmood, & Aman-Ullah, 2023). A compensation system uses rewards to determine how much money or other assets a corporation gives to employees (Keynan, 2018). An employee works for a firm and receives compensation in the form of cash or other assets from the company (Bhattacharyya, 2014).

Employees receive a combination of direct and indirect, monetary and non-monetary compensation based on their level of contribution to the company. Payment must be made under the organization's capabilities, policies, and procedures (Singh, 2008).

Most direct compensation consists of cash payments paid to employees on a monthly, bi-monthly, and weekly basis in exchange for their contributions to the business. It may also take the shape of a salary, stock bonus, or other awards (Larbi, 2014). Direct compensation refers to the financial benefits that a business directly provides to its workers, including salary, bonuses, and incentives (Lestari, Haryono, Kurnia, & Rda, 2021).

According to Larbi (2014), direct monetary and indirect non-monetary incentives that an employee receives to improve his performance are referred to as indirect compensation. It includes all grants, both monetary and non-monetary, such as annual vacations (Keynan, 2018). An unofficial gift that the company provides to its staff members, such as perks, health insurance, and other amenities (Lestari, Haryono, Kurnia, & Rda, 2021).

Understanding other people's actions gives the context of your actions. This is known as awareness. This definition of awareness is based on the comprehension level. Additionally, awareness is the state or capacity to perceive, feel, or be cognizant of things, events, or sensory patterns; it is also referred to as the level of consciousness (Oladejo & Oluwaseun, 2014).

Performance is what a person achieves concerning the duties that are given to him (Imron, Suyud, Syam, & Tengah, 2023). Employee performance includes both the effort put forth in handling pressing circumstances and the completion of tasks on time

(Lestari, Haryono, Kurnia, & Rda, 2021). Employees with the necessary abilities, motivations, and interests carry out performance. Employee values and treatment will have an impact on their actions and attitudes (Prasetyo, Endarti, Endarto, & Aliyyah, 2021).

Brasilio and Tridayanti (2020) investigated the impact of direct and indirect compensation on employee performance at PT. Surabaya Container Terminal. The study found that direct compensation improves employee performance. Companies can increase employee performance by maintaining and improving indirect compensation services, which significantly impact performance. At The Khayangan Dreams Villas Bali, Damayanthi and Suastini (2022) carried out a study to determine the impact of indirect compensation on worker performance. The results showed that the ability in employee performance received the lowest score, and the paid vacation program obtained the lowest score in the indirect compensation criteria. An assessment of the paid vacation program and the development of staff performance metrics for Khayangan Villas' use are suggested to enhance these features.

Niar and Andayani (2019) investigated how employee performance was impacted by both direct and indirect compensation. All the participants in this study were PT Trisun Abadi Mandiri employees. The study's findings show that while indirect compensation has a positive impact and a significant impact on employee performance, direct compensation has a positive impact and does not significantly affect employee performance. However, both direct and indirect compensation have a positive and significant impact on employee performance at the same time. Wang, Zhao, Liu, and Yuan (2022) looked at the relationship between monetary rewards and employment outcomes across initial care providers in six Chinese provinces. Adam's equity theory served as the study's foundation. And expectancy theory, in the end, they found that financial payment has a significant impact on employees' motivation. Financial compensation and financial incentives have a significant and positive impact on workers' output. They recommend the Ministry of Environment should carefully state their financial compensation as it impacts employees' satisfaction, which directly influences employees' performance in Nigeria, Ministry of Environment (Garba, 2022). Sari and Tridayanti (2018) examined if employee performance at Warung Ayam Goreng Nelongso Klampis, Surabaya, is significantly impacted by direct and indirect pay. Based on the results, employee performance is directly impacted by indirect compensation, while employee performance is also directly impacted by direct compensation. To shed light on how remuneration schemes affect employee

performance. Jean, Ngui, and Robert (2017) established a study using data from Mombasa Cement Limited. They conclude that pay, recognition, and perks greatly enhance workers' output. Ultimately, they advise the Human Resources Manager to make sure that the system is appropriately designed, with a well-defined wage plan and job evaluation procedure.

Imron, Suyud, Syam, and Tengah (2023) have shown the influence of pay and professional advancement via motivation for scholarly publications on the effectiveness of home-based Islamic school professors at university. According to him, increased professional growth leads to improved performance. When pay is properly administered, performance improves. When motivation enhances the process of professional growth, lecturers perform better. When remuneration is enhanced through motivation, lecturers' performance improves. This report advises the authorities of the University of Al-Qur'an Science Wonosobo on how to increase lecturer remuneration and career growth.

Conceptual Framework

The conceptual framework is a group of associated ideas or concepts that are sorted to convey the communication merely (Jean, Ngui, & Robert, 2017). Figure 1 is a theoretical framework that illustrates how predictor and dependent variables relate to one another.

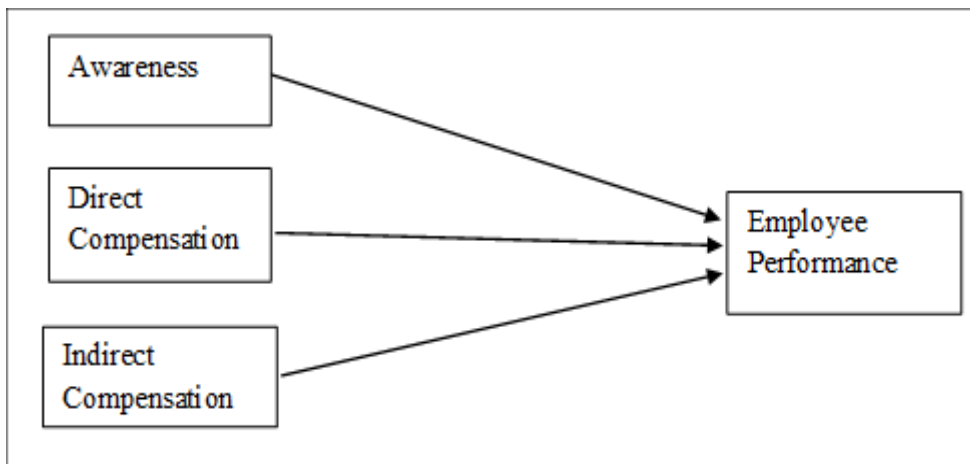


Figure 1. Conceptual framework

Research Hypotheses

- H1: Awareness has a significant impact on employee performance.
- H2: Direct compensation has a significant impact on workers' performance.
- H3: Indirect compensation has significant impacts on workers' performance.

Research Methodology

This study used a cross-sectional design, also known as one-shot or status studies. In a cross-sectional design, researchers collect data from numerous entities during a defined period (Bryman, 2012). The deductive strategy was used in which the researcher moves from general to specific. The deductive research approach is based on causation (Muslih, 2022). In our study, the research population consisted of personnel from NGOs in the southern zone of Afghanistan. 290 questionnaires were provided, but only 281 were correctly completed. The stratified sampling approach is used, with the sample divided into strata based on their departments and hierarchical rank. The questionnaire was designed using questions from numerous research articles. The data was analyzed using IBM SPSS, Smart PLS, and AMOS version 26.0. We used Cronbach's alpha and convergent validity approaches to evaluate reliability and validity. Factor analysis was used to eliminate items based on their variance with the relevant latent variable. To investigate the link and effects, we employed correlation and multiple linear regression.

Reliability

To ensure scale consistency, the researchers used a reliability test based on Cronbach's alpha and composite reliability, as seen in table 1. In this study, there were four variables: Awareness, employee performance, direct remuneration, and indirect compensation. Cronbach's alpha and Composite Reliability results suggest that employee performance includes Cronbach's alpha of 0.874, awareness of 0.795, direct compensation of 0.847, and indirect compensation of 0.753, following the composite reliability of 0.879, 0.805, 0.861, and 0.757. Based on the foregoing results, we may conclude that our scales are dependable and consistent.

Table 1. Cronbach's Alpha and Composite Reliability

Variables	Number of Items	Cronbach's Alpha	Composite Reliability
Dependent variable			
Employees	8	0.874	0.879
Performance			

Independent Variable			
Awareness	6	0.795	0.805
Direct Compensation	6	0.847	0.861
Indirect Compensation	6	0.753	0.757

KMO and Bartlett's Test

To ascertain if our sample size and data are suitable for factor analysis, we employed the Kaiser-Meyer-Olkin Measure and Bartlett's Test of Sphericity. As seen in table 2, the value of the Meyer-Olkin Measure is 0.885, which shows that sample size is sufficient because it is bigger than 0.5. Bartlett's Test of Sphericity Valve yields 0.000, which is less than 0.05, proving that factor analysis can be performed on the data.

Table 2. *KMO and Bartlett's Test*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.885
Bartlett's Test of Sphericity	Approx. Chi-Square	3181.450
	df	210
	Sig.	0.000

Convergent Validity

The table 3 illustrates convergent validity, which is used to determine whether the indicators describe a related latent variable or not. The minimum admissible AVE is 0.50, which demonstrates that the variable clarifies 50% or more of the variance in the indicators (Jr Hair, Hult, Ringle, Sarstedt, Danks, & Ray, 2021). As seen in the table, all values are larger than 0.5: AW = 0.551, DC = 0.620, IDC = 0.574, and EMP = 0.571. This demonstrates that they act following convergent validity.

Table 4. *Heterotrait-Monotrait Ratio (HTMT) and Fornell and Larcker Criterion*

Variables	Heterotrait-monotrait ratio (HTMT)	Fornell and larcker Criterion				
		AD	DC	EP	IDC	
DC <-> AW	0.749					
EP <-> AW	0.710					
EP <-> DC	0.688	AW	0.742			
IDC <-> AW	0.591	DC	0.637	0.787		
IDC <-> DC	0.747	EP	0.603	0.629	0.756	
IDC <-> EP	0.725	IDC	0.462	0.603	0.592	0.758

As stated by the Fornell and Larcker criterion, discriminating validity exists when the highest value of each column exceeds the lower one. Table 4 shows that all variables

match the test criteria: AW = 0.742, DC = 0.787, EP = 756, and IDC = 0.758. If we look at the HTMT, we can see that there is discriminating validity because all variable values are greater than 0.5.

Discriminate Validity

To prove that our constructs are different from one another, we used Discriminate Validity, This metric assesses a construct's empirical distinction from others in the structural model (Jr-Hair, Hult, Ringle, Sarstedt, Danks, & Ray, 2021). To test discriminate validity we have taken two criteria, the Heterotrait-monotrait ratio (HTMT) and the Fornell and Larcker Criterion.

Table 3. *Average Variance Extracted (AVE)*

Variables	Average variance Extracted (AVE)
Awareness	0.551
Direct Compensation	0.620
Indirect Compensation	0.574
Employees Performance	0.571

Factor Loading

Factor loadings, similar to correlations, reflect the strength of the link between a variable and a factor. They range from ± 1.0 . Ideally, each variable would have a high load ($>.5$) on one factor and a low burden ($<.2$) on the others. Factors with high loadings have strong face validity and may measure an underlying dimension (George & Mallery, 2019). Table 5 displays the factor loadings for all variables; all awareness-related items have higher values in their construct. It represents the strong loading of each item's latent variable. All other variables' elements similarly load their construct heavily.

Table 5. *Factor Loading*

	Factor Loadings			
	AW	DC	EP	IDC
AW1	0.778			
AW2	0.824			
AW3	0.725			
AW4	0.679			
AW5	0.695			
DC1		0.674		
DC2		0.845		
DC3		0.898		
DC4		0.7		

DC5	0.797	
EP1		0.812
EP2		0.731
EP3		0.71
EP4		0.742
EP5		0.823
EP6		0.757
EP7		0.709
IDC1		0.807
IDC2		0.756
IDC3		0.712
IDC4		0.753

Measurement Model

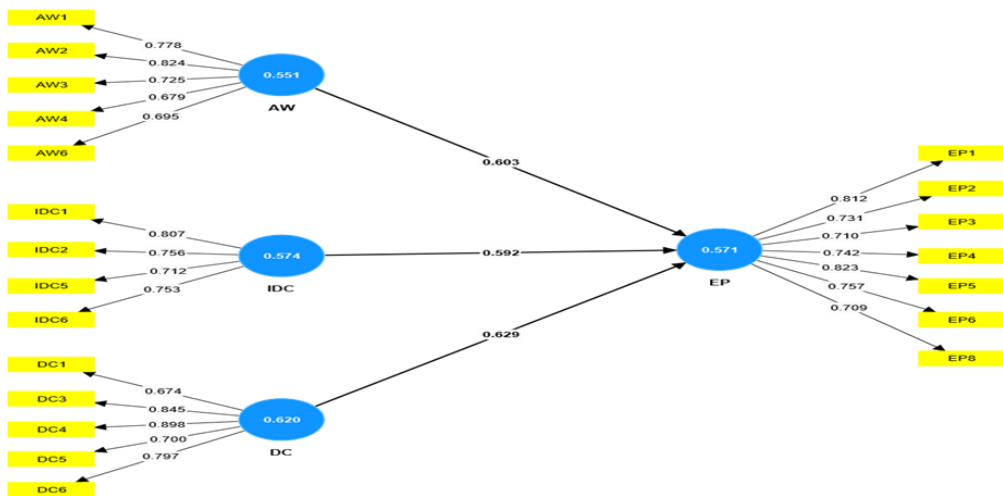


Figure 2. Measurement model

Normality Tests

The normality test determines whether a normal distribution exists between the regression model's independent and dependent variables. It is critical to decide on normalcy because if we utilize parametric tests in our study, we must be aware of normality. To check normality, we used Skewness and kurtosis; based on the results, all variables have less than -2 and +2 Skewness (AWA = 0.369, DCM = 0.621, IDCM = 0.078, and EMP = 0.920), and the value of kurtosis is also less than -2 and +2 (AWA = -0.758, DCM = 0.745, IDCM = -0.672, and EMP = 0.438), indicating that our data is normal and that parametric tests can be applied.

Table 6. Skewness and Kurtoses

Statistics		AWA	DCM	IDCM	EMP
N	Valid	281	281	281	281
	Missing	0	0	0	0
	Skewness	.369	.612	.078	.920
	Std. Error of Skewness	.145	.145	.145	.145
	Kurtosis	-.758	-.745	-.672	.438
	Std. Error of Kurtosis	.290	.290	.290	.290

Multicollinearity

There is multicollinearity when a minimum of two indicators in a formative measurement model are closely linked, which raises the indicator weights' standard error and leads to type II mistakes (false negatives) (Jr-Hair, Hult, Ringle, Sarstedt, Danks, & Ray, 2021). Two commonly used measures for Collinearity are variance inflation factor (VIF) and tolerance. A tolerance of less than 0.001 and VIF values of 5 or above indicates strong linear dependency.

Table 7. Tolerance and VIF

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
	AWA	1.665
	DCM	1.819
	IDCM	1.611

The results in table 6 reveal that VIF is 1.665, 1.819, and 1.611, which are all less than 5, indicating that there is no Collinearity. Furthermore, all tolerance values exceed 0.001, indicating that there is no Collinearity.

Correlation Matrix

Table 7 demonstrates the connections between variables, with Awareness of Employee Performance having a positive and strong relationship with a Pearson correlation of 0.557, Direct compensation having a strong and positive relationship with a correlation of 0.598, and indirect compensation management having a weak but favorable correlation ($r = 0.497$) between performance of workers, and all variables being significant as shown in table 7.

Table 8. Correlation Analysis Results

		AWA	DCM	IDCM	EMP
AWA	Pearson Correlation	1	.594**	.519**	.557**
	Sig. (2-tailed)		.000	.000	.000
	N	281	281	281	281
DCM	Pearson Correlation	.594**	1	.575**	.598**
	Sig. (2-tailed)	.000		.000	.000
	N	281	281	281	281
IDCM	Pearson Correlation	.519**	.575**	1	.497**
	Sig. (2-tailed)	.000	.000		.000
	N	281	281	281	281
EMP	Pearson Correlation	.557**	.598**	.497**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	281	281	281	281

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

Regression Analysis

A significant model is indicated by the final model's F statistic of 71.487 and P-value of 0.000, as shown in Table 8. The considerable model shows that independent variables have an impact on one another.

Table 9. ANOVA Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.779	3	13.926	71.487	.000 ^b
	Residual	53.962	277	.195		
	Total	95.741	280			

a. Dependent Variable: EMP
 b. Predictors: (Constant), IDCM, AWA, DCM

Table 9 depicts $R=0.661$, the variation in the general performance of employees and 43.6% of in real population ($Adjusted R^2 = 0.43$). The R square is the most crucial element of data given by the table. The overall proportion of the variability caused by awareness and compensation is denoted by R square. The R-squared value was 43.6%, indicating that the factors of awareness, direct remuneration, and indirect compensation are correlated with employee performance.

Table 10. Regression Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.661 ^a	.436	.430	.44137	1.850

a. Predictors: (Constant), IDCM, AWA, DCM
b. Dependent Variable: EMP

Discussion

This study looked at how compensation affects employee performance in Non-Governmental Organizations (NGOs). The data show that awareness, direct compensation, and indirect compensation have a significant influence on worker output.

Based on the outcome, direct compensation has a significant effect on worker performance. This finding is backed by other extensive research, such as Yolande (2024), who established the connection between employee performance and pay, and found that there is a strong association among the two. Lestari, Haryono, Kurnia, and Rda (2021) discovered that there is a substantial link between direct pay and staff outcomes in temporary staff UMY. Oluwaseun (2014) demonstrated that a compensation plan had a large and favorable effect on worker performance, ultimately increasing the total performance of the Nigerian food and beverage industry. Singh and Tiwari (2021) showed that employee performance is significantly impacted by remuneration. The findings show that employee performance is significantly impacted by the variable direct compensation (Brasilio & Tridayanti, 2020; Niar & Andayani, 2019; Sari & Tridayanti, 2018).

Based on the findings that indirect pay significantly affects how well employees perform. It could be justified to conclude that compensation (including both direct and indirect compensation) has a positive influence on the performance of publicly owned companies in the region (Prasetyo, Endarti, Endarto, & Aliyyah, 2021). Imron, Suyud, Syam, and Tengah (2023), indicated that pay has a good and significant effect on the performance of home-based instructors at PAI FITK, University of Science Al-Qur'an Wonosobo. Damayanthi and Suastini (2022), according to the data analysis results, indirect compensation has a considerable beneficial effect on employee performance at the Khayangan Dreams Villas Bali. According to Niar and Andayani (2019), Employee performance is positively impacted and significantly impacted by indirect compensation.

Conclusion

Awareness has a positive and considerable influence on employee performance. The correlation matrix likewise demonstrates a positive and strong association between

awareness and employee performance. Direct remuneration has a favorable and considerable influence on worker performance and the two are strongly and favorably correlated. Indirect compensation has a strong and significant impact on staff performance, with the correlation indicating a weak but positive association between indirect compensation and employee performance. The test findings show a coefficient of determination of R square value of 0.436, or 43.6%. Compensation and awareness have a 43.6% impact on employee performance.

Suggestions

- NGOs should raise knowledge about pay management and supply all forms of information regarding compensation systems and packages to see exceptional employee performance.
- Based on the findings, direct compensation has the greatest influence on employee performance, so firms should carefully manage their direct compensation packages and maintain a robust structure for this sort of compensation.
- Providing benefits and incentives for employees who want to improve their knowledge through internal and external self-development programs, as well as controlling the increase in the achievement of employee performance targets in terms of quantity and quality, and providing compensation per the increase in targets that have been met.

Recommendations

It is projected to be able to undertake more extensive and in-depth research on increasing the performance of NGOs' personnel based on variables not previously investigated by the author. This is because other variables are unknown at the same time, implying that other factors have a substantial impact on the performance of NGOs. Employee engagement, work discipline, work motivation, and other variables have been identified as potential research topics.

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