

IMPACT OF THE TOTAL REWARD MANAGEMENT ON PERFORMANCE OF EMPLOYEES IN COMMERCIAL BANKS

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Abstract

This study examines the impact of total compensation management on employee performance in commercial banks. It considers the total compensation system elements, such as equality in financial rewards, effects of non-financial rewards, and other factors as operational and control tools used to align organizational and employee goals and improve performance. For this study, 129 questionnaires administered to Kosovo commercial bank employees were analyzed. Statistical methods used in this paper are principal component analysis and ordinary linear regressions. One of the most important findings of this research is that financial incentive is the most important determinant of employee performance,

increasing employee performance by 30 percent. The research results also indicate a significant relationship between equal employee compensation and pay for work of equal value. A significant relationship between non-financial factors has also been identified, including career development opportunities and benefit packages, such as pension funds, holidays, and loans specifically discounted for commercial bank employees. It is important to note that employee performance decreases with other factors, such as competition in the labor market.

Keywords: *employee performance, reward, compensation, benefits*

1. INTRODUCTION

Kosovo is one of the youngest countries in Europe, with a growing proportion of the working-age population. Youth under the age of 15 make up 25.7% of the population, while 67.6 % are of working age between 15 and 64 (Cojocary, 2017). According to the latest labor force survey (2020), the unemployment rate in Kosovo was 25.9%. Unemployment was highest among women

at 32.3%, while it was 23.5% among men. The highest unemployment rate was in the age group 15-24 with 49.1%.

In Kosovo, the financial sector structure is dominated by commercial banks, which are mainly foreign-owned and manage 88 % of total banking sector assets (Central Bank of Kosovo, 2018). Eleven commercial banks are operating in the banking system of Kosovo, which accounts for 67.8% of

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the total assets of the financial sector¹. The banking sector is an attractive and competitive labor market in Kosovo, especially for young graduates. Nevertheless, there is little research on the performance and motivation of employees in the banking sector. Therefore, the main objective of this study is to determine the impact of total compensation on employee performance in the banking sector, considering the high unemployment and competition in the labor market. Incentive plans and total compensation systems establish a performance level that employees or teams must achieve to qualify for bonuses and benefits.

Management usually expects employees to accept various changes in rules and regulations and bring new skills to their work. The changes in the economic environment are followed by the performance evaluation and the way the work is done. Recently, changes in the workplace have led to more team building, decision-making, and team-oriented activities. In addition, increased competition has impacted the different ways of performing work activities. Rewards must be perceived as understandable, meaningful, and important to incentivize employees.

Consequently, managing the right rewards policy is one of the biggest challenges for HR managers. The difficulty of reward management also stems from the increasing complexity of the reward packages. Rewards are not just about pay. Brown (2014) argues that methods of pay and reward have become increasingly complex and that communication between managers and employees has become less effective. According to Fay & Thompson (2002), the days when rewards consisted only of cash in hand and benefits are well and truly over. Leading companies are increasingly

emphasizing a total rewards approach that considers new development opportunities for employees and the possibility of flexible work schedules, a work-life balance, and increased quality of life. The success of performance rewards depends on the organizational climate, the business environment, the employees, and how those employees fit the organization's needs (Snel et al., 2005). Employee benefits are rewards other than financial ones. They are also a form of long-term compensation that creates loyalty and binds employees to a company. This makes fringe benefits a valuable component of compensation plans for organizations with an internal work orientation (Stewart & Brown, 2019). Reward systems are essential mechanisms for increasing employee performance. An employee's skills can be improved when rewards are used according to the employee's needs.

2. LITERATURE REVIEW

The total remuneration system should be well structured, customer-oriented, strategically aligned with organizational goals, and designed to encourage ethical behavior and better performance of employees. According to Lawler (2011), employees can receive various rewards. It depends on how companies offer them to their employees to increase their motivation and performance. There are also different individual preferences when it comes to reward systems. Some workers prefer bonuses, others paid vacation, and others promotion opportunities. As satisfaction with rewards influences critical organizational outcomes, the overall reward strategy proves to be the critical determinant of organizational workforce quality (Thibault & Whillans, 2018). Reward system consists of reward strategies, reward policies, practices, and procedures, starting with business strategy (Armstrong, 2007).

1 <https://www.bankassoc-kos.com/En/sektori-bankar/>

Recently, many organizations have been using employee performance rewards systems to achieve organizational goals (Mullins, 2007). Kaplan (2007) emphasizes that rewards should align with the corporate strategy. Thus, considering the employee perspective, total rewards are related to the value employees place on their employment in terms of compensation, benefits, work climate, and professional development. According to Tyson (2014), the goal of reward policies is for companies to reward employees fairly while remaining competitive in the labor market. Managing reward practices in organizations has a lot to do with equity. If employees do not perceive rewards as fair, reward practices and processes may cause employee motivation to decrease (Okoli & Nuel-Okoli, 2020). Aziri (2011) finds that the overall job satisfaction depends on the perception and nature of the job and that financial compensation has an important impact on employee satisfaction (Martono et al., 2018). Compensation systems are introduced to motivate employees to perform better, be more productive, and not quickly move to other companies. To maintain employee fairness, human resource management must develop an appropriate system and introduce reward systems that consider employees' competencies. To implement performance-based compensation systems, we should also establish performance appraisal systems. Smith & Rupp (2003) found that higher or lower compensation depends not on employee performance but on budget constraints. Adopting a total rewards strategy based on workforce characteristics gives employers a competitive advantage in their value proposition (Gross & Rook, 2018). Using a total rewards strategy supports a company's talent management program. According to Nazir et al. (2012), communication is critical in a rewards system. An effective communication and evaluation strategy must be an

integral part of total reward systems to be effective. Ahmad et al. (2019) found that in addition to reward management, key factors such as supervisor attitudes, work environment, and employee behaviors also improve employee performance and increase job satisfaction. Gomez-Mejia et al. (2014) attach greater importance to job evaluation in terms of compensation structures than to pay for performance and recommend that individual compensation structures be determined after analyzing and evaluating the jobs in the company.

Kohn (1999), on the other hand, consistently argues that compensation not only fails to deliver the intended results but distorts behavior and has a negative long-term impact on productivity. Kohn even equates these additional payments with bribes and argues that they should not be used, even though many managers believe that employees will do a better job if they are promised some type of reward or incentive. Compensation plans with financial incentives such as annual bonuses can be effective if distributed fairly. However, the varying positive or negative relationship between financial incentives and need satisfaction across studies suggests that other variables may influence how financial incentives are perceived (Antoni et al., 2017).

In contrast, Cao & Song (2013) found that a total compensation system reduces employee turnover; they also focus on fair pay and career development opportunities and employee performance evaluation as in our research. The difficulties managers face in determining the most appropriate and effective reward strategy for the organization are highlighted in the academic literature and the realities of corporate life. The dilemma they face is that while employees value rewards and usually want more, rewards can be very costly. The reward management

includes financial and non-financial rewards, such as promotion and title, authority and responsibility, training, appreciation and praise, certificates (Güngör, 2011). They are also referred to as extrinsic and intrinsic rewards. According to Beqiri (2019), intrinsic motivation refers to the pleasure and satisfaction derived from the work itself, while extrinsic motivation is more related to the benefits, rewards, recognition, and competition that arise from performing a work activity. Ahmed & Shabbir (2017) found differences between intrinsic and extrinsic rewards in employee performance in banks. Similarly, according to Kaplan (2007), linking corporate strategy to the total compensation system requires communication, education, and commitment from managers and employees.

Kohn (1999) argues that reward and punishment are not opposites but somewhat different sides of the same coin. In this sense, the reward is a source of extrinsic motivation that, according to Kohn, does not replace an individual's emotional or cognitive engagement critical to understanding and influencing behavior. In her study of organizational rewards, considering employees' allocation needs, Webb Day et al. (2014) found that managers' communications with employees play an important role in performance-based reward systems because employees' needs and expectations in this context are addressed. The employees produce higher levels of organizational performance and presumably rewards, addressing the higher needs. For the strategies chosen for reward management and performance compensation in the organizations, managers need to understand the external and internal circumstances of the organization. Reward practices are driven by perceptions of the balance of power between workers and management (Braton & Gold, 2003). Compensation and rewards

are usually among the first things potential employees consider when looking for a job. Therefore, it is essential to pay attention to a company's compensation structure as it also provides an incentive to the employees and makes them feel valuable to the company (Pathak & Pandey, 2019).

3. RESEARCH DESIGN AND DATA COLLECTION

The focus of this study is on commercial bank employees in Kosovo. The simple random method was used to collect data from the target population. A total of 7 out of 11 commercial banks were selected as the sample. A close-ended questionnaire was developed with a 5-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. The data were primary. We distributed 180 questionnaires and had responses from 129 employees of 7 commercial banks in Kosovo. One-third of the questionnaires were completed in face-to-face interviews during the first months of 2020, while the other questionnaires were submitted online due to the Covid-19 pandemic. Some of the research questions that emerged from the theory and literature review that we attempted to answer in this study are:

- Is there an equal pay policy?
- Are you aware of the bonus system developed by the management?
- Do you enjoy the benefits of taking a low-interest loan?
- Do flexible work schedules allow you to maintain a work-life balance?
- Does your performance improve when you have the opportunity to learn and grow in your organization?
- Is your pay competitive with pay in the labor market?

The following hypotheses were derived from these research questions:

Hypothesis 1: Financial rewards positively impact the performance of employees in commercial banks.

Hypothesis 2: Non-financial rewards positively influence the performance of employees in commercial banks.

Hypothesis 3: Labour market competition positively influences the performance of employees in commercial banks.

This study used a structured questionnaire to collect primary data. Therefore, using questionnaires as a data collection method allows the analysis of possible relationships between the variables included in the study and principal research questions. Williams (2007) explains that data collection is a process that is conducted in two steps. The first step is the analysis and design of the questions and the frequency of the results. The second step includes selecting statistical models, interpreting the results, and presenting the conclusions. The paper is divided into four sections. Section I consists of questions on equity and fairness in reward systems considering financial rewards. Section II is related to non-financial employment benefits, recognition,

and career development opportunities questions. Section III focuses on other factors affecting employee performance, such as competition and labor market trends, while section IV is related to the dependent variable, i.e., employee performance. In the data analysis, Statistical Package for Social Sciences (SPSS) version 20 was used to analyze the data for describing and interpreting the results. When using the questionnaire with the five-point Likert scale, the principal component analysis model is most commonly used. We also used this model with KMO and Bartlett's test to predict the factors and OLS regressions.

4. ANALYSIS AND DISCUSSION OF RESULTS

In terms of total compensation, there are tangible and intangible rewards. These days employees are more concerned about the work climate in their companies, fairness of their appraisal systems, and rewards from their managers. In addition, there are trends in the labor market, such as competition in the banking sector as one of the better-paying jobs and high unemployment in Kosovo. Taking these aspects into account, we developed the conceptual framework for our research.

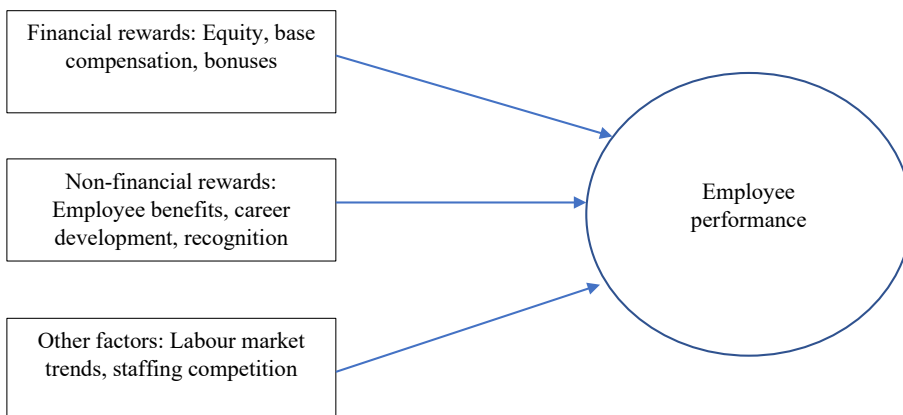


Figure 1. Conceptual framework

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In this section, we present the research analysis we used for the study, the methods of data analysis methods, and the discussion of the results. For the descriptive analysis of the results, Table 1 shows the demographic characteristics of the 129 respondents. In terms of gender, 55% are female, and 45 % are male. In terms of age, 53.3% of the respondents in this study are between 18 and 30, as expected given the young population

in Kosovo, 36.4% are in the 31-40 year group, 8.5% are between 41 and 50, and only 1.6% are older than 50. Concerning the education level of respondents, 29.5% have an undergraduate degree, 69.8% have a graduate degree, and only one (0.8%) has a Ph.D. Concerning their job title, 7% of respondents are supervisors, 55.8% are cashiers, and 37.2% are credit analysts.

Table 1. Descriptive results

		Frequency	Percentage	Std. Deviation
Gender	Female	71	55%	
	Male	58	45%	
	Total	129	100%	.471
Education	Bachelor	38	29.5%	
	Master	90	69.8%	
	PhD	1	.8%	
	Total	129	100.0%	.499
Age	18-30	69	53.5%	
	31-40	47	36.4%	
	41-50	11	8.5%	
	51+	2	1.6%	
	Total	129	100%	.715
Job Title	Supervisor	9	7%	
	Cashier	72	55.8%	
	Credit Analyst	48	37.2%	
	Total	129	100%	.594

Source: Authors' calculations

The principal component analysis is based on the Kaiser-Meyer-Olkin (KMO) measure, and the rotated component matrix uses Varimax and Kaiser normalization. Multiple regressions analysis is used to test the hypotheses of the total compensation system in the banking sector. As previously mentioned, principal component analysis is

used to analyze data collected with a questionnaire on a five-point Likert scale. The Kaiser-Meyer-Olkin (KMO) measure in Table 2 varies between 0 and 1. The value of 0 means that the variables are highly correlated (Field, 2005), while the value close to 1 means that the correlation is relatively compact and the factor analysis produces

reliable factors. However, the result above 0.50 provides a general understanding that the sample is correct. In our case, its value

is 0.865, which means that we have robust data.

Table 2. KMO and Bartlett's test

Kaiser-Meyer-Olkin Measure of sampling adequacy.		.865
Bartlett's test of sphericity	Approx. Chi-Square	912.593
	df	120
	Sig.	.000

Source: Authors' calculations

Bartlett's test for sphericity is highly significant, at the 0.00 level, indicating that the variables are highly correlated and can be used for factor analysis. The initial eigenvalues in Table 3 show that the cumulative percentage of variances for the

first component is 28.7%, for the second component, it is 45.9%. For the third component, it is 55.7%, while the total percentage of variations for the fourth component is 64.5%.

Table 3. Total variance explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		Rotation Sums of Squared Loadings		
	Total	% of Variance	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.004	37.524	4.591	28.697	28.697	4.591	28.697	28.697
2	1.797	11.231	2.754	17.210	45.907	2.754	17.210	45.907
3	1.392	8.703	1.574	9.834	55.741	1.574	9.834	55.741
4	1.129	7.056	1.404	8.773	64.514	1.404	8.773	64.514
5	.839	5.244	69.758					
6	.780	4.876	74.634					
7	.697	4.358	78.992					
8	.575	3.595	82.586					
9	.541	3.379	85.965					
10	.517	3.229	89.194					
11	.391	2.444	91.638					
12	.353	2.207	93.845					
13	.318	1.985	95.830					
14	.291	1.821	97.651					
15	.201	1.256	98.907					
16	.175	1.093	100.000					

Source: Authors' calculations

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Table 4 presents the rotated component matrix, with principal component analysis performed, using the Varimax rotation with Kaiser normalization, which gives equal weight to all the variables after rotation. To name the factors, we grouped the variables that have the highest weight under one factor:

- For component 1 – Equity in Financial Incentives, the variances in research questions are as follows: Q1(0.714), Q2(0.707), Q3(0.802), Q4(0.763), Q5(0.661), Q6(0.683), Q7 (0.781), and Q8(0.703). Thus, questions 1, 2, and 8 refer to equal treatment in pay and performance evaluation in commercial banks, while questions 3, 4, 5, 6, and 7 refer to financial incentives that affect employee performance.
- For component 2 - Non-Financial Incentives (Employee Benefits), variances from factor 9-12 have the following results: Q9(.691), Q10(.742), Q11(.781), Q12(.777). These variables have the highest weight under component 2, while question Q13 does not influence this component. This is probably because banks have no flexible working hours but only standard working hours.
- For component 3 - Career Development, variances from questions: Q14 (.728) and Q15(.731) concern the career development and learning organizations.
- For component 4 - Other Factors, the external influence on payments, concerning the competitive market rates, has the variance of Q16(.810).

Table 4. Rotated component matrix

Rotated component matrix	Component			
	1	2	3	4
Q1 Does your workplace have an equal pay policy?	.714	.311	.351	-.163
Q2 Is equal treatment in employee performance appraisals an incentive for you?	.707	.117	.267	.048
Q3 Is your pay in proportion with the work performed?	.802	.236	.182	-.046
Q4 Does the current pay system encourage better performance?	.763	.312	.062	.034
Q5 Would you perform better if the pay was higher?	.661	.079	-.279	.317
Q6 Are you aware of the bonus system developed by the management?	.683	.063	-.111	.396
Q7 Do you receive an annual bonus based on your performance?	.781	.169	.109	-.001
Q8 Are promotions based on a performance evaluation?	.703	.089	.258	-.145
Q9 Do you receive compensation during your vacation and public holidays?	.029	.691	-.187	-.101
Q10 Does the structured pension system give you an incentive?	.270	.742	.081	.014
Q11 Do you benefit from low-interest rate loans?	.287	.781	-.155	.004
Q12 Are you are eligible for health care benefits?	.322	.777	-.200	.054
Q13 Do flexible working hours ensure a work-life balance?	.087	.325	-.024	-.647

Q14 Do you have the opportunity to learn and develop within your organization? Does this improve your performance?	.075	.178	.728	.009
Q15 Are you rewarded for a job well done?	.267	.096	.731	.063
Q16 Is your salary competitive with the market rate for a similar job?	.049	.233	.061	.810

Extraction method: Principal component analysis. Rotation method: Varimax with Kaiser normalization.

Source: Authors' calculations

Multiple regression formula is as follows:

$$Y'' = \bar{a} + \beta \text{ Gen} + \beta_1 \text{FR} + \beta_2 \text{NFR} + \beta_3 \text{OF} + \varepsilon,$$

Where $Y'' = \bar{a}$ is the dependent variable, while the independent variables are: β – constant, β_1 - financial rewards, β_2

- non-financial rewards, β_3 - other factors, ε - error term.

Table 5 shows that the R-squared value is 0.731, and the adjusted R-squared value is 0.724. The independent variables are appropriate for the model and explain about 73 % of employee performance.

Table 5. Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.855 ^a	.731	.724	.270

Source: Authors' calculations

Table 5 presents the regression coefficients, with the independent variables significant at the level of 0.00.

Table 6. Regression coefficients

Model		Non-standardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	2.783	.024		116.931	.000
	Financial rewards	.368	.024	.714	15.395	.000
	Non-financial rewards	.181	.024	.351	7.567	.000
	Other factors	-.160	.024	-.311	-6.707	.000

Source: Authors' calculations

Based on the above results, we accept hypotheses H1 and H2, which prove that financial and non-financial rewards positively impact employee performance. We reject

hypothesis H3 that other factors positively influence employee performance because the regression coefficient is negative.

5. CONCLUSIONS

The importance of this research is that there is a gap in research on the total compensation of employees in emerging markets. One of the main tasks of human resource management is to establish a good relationship between incentive pay and satisfied employees. This study attempts to identify the relationship between total compensation systems in the banking sector and incentives for better employee performance. However, we did not focus on job satisfaction and employee retention, as suggested by Sarkar et al. (2021), who examined total compensation studies and found that the self-determination theory framework of need satisfaction is also necessary for explaining the relationships between total compensation and retention. This study found that an important incentive in compensation is in the form of salaries and bonuses, which are related to employee motivation. The financial incentives and the equality and fairness in the incentive systems increase the performance of employees. Financial incentives are an important motivating factor for commercial bank employees. Promotions are also crucial in enhancing employee performance if unbiased and based on employee performance evaluation. The results of this study examined the relationship between employee performance and the total compensation system, considering career development and recognition for work well done. From the empirical results, it is clear that non-financial incentives are also significant to employees. Therefore, managers should pay more attention to them to motivate employees and provide them with a sense of achievement to improve performance. Significant incentives in terms of non-financial benefits in commercial banks for employees are low-interest loans and other benefits such as pension schemes and health insurance. As

we mentioned earlier, Kosovo has high unemployment, and competition in the labor market is high. The other factors mentioned in the conceptual framework are the labor market trends and competition for jobs in the financial sector, which result from the fact that there is a high level of unemployment and a mismatch between supply and demand in the labor market in Kosovo. Therefore, another critical factor that negatively impacts and reduces the performance of commercial bank employees is the competition in the market for personnel in the financial and banking sector and the fear of being replaced by younger, newly graduated workers. This study has limitations related to the limited data collection and the study being conducted in Kosovo only. Suggestions for further studies are to include the entire financial sector and increase the number of respondents, especially considering the impact of Covid-19 pandemics on the entire reward system.

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UTJECAJ UPRAVLJANJA UKUPNIM NAGRAĐIVANJEM NA RADNI UČINAK ZAPOSLENIKA U POSLOVNIM BANKAMA

Sažetak

U ovom se radu istražuju utjecaj upravljanja ukupnim nagrađivanjem na učinak zaposlenika u bankama. U radu se razmatraju čimbenici ukupnog sustava kompenzacija, koji uključuju jednakost financijskih nagrada, učinke nefinancijskog nagrađivanja, kao i drugi čimbenici, kao operativni i kontrolni alati, pomoću kojih se mogu uskladiti organizacijski i osobni ciljevi te unaprijediti radni učinak. Za potrebe ovog istraživanja, analizirano je 129 upitnika, koje su ispunili zaposlenici poslovnih banaka na Kosovu. U radu se koriste statističke metode faktorske analize i jednostavne linearne regresije. Jedan od najznačajnijih rezultata je da su financijski poticaji

najznačajniji čimbenik radnog učinka, koji utječe na njegovo povećanje za oko 30%. Također se pokazuje da postoji značajan odnos između jednakosti plaćanja za rad iste vrijednosti. Utvrđen je i značajan odnos između nefinancijskih čimbenika, koji uključuju mogućnosti za razvoj karijere i pakete beneficija, kao što su mirovinski fondovi, godišnji odmor i subvencionirani krediti za zaposlenike. Značajno je napomenuti i da se radni učinak smanjuje s drugim čimbenicima, kao što su povećanje konkurencije na tržištu rada.

Ključne riječi: radni učinak, nagrađivanje, kompenzacije, beneficije