



Research Paper

The Role of Compensation: in Building Organizational Loyalty

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ABSTRACT: *Human capital is regarded as one of the most critical resources within organizations, as it plays a decisive role in determining organizational success or failure. Consequently, organizations have increasingly emphasized the adoption of effective strategies to attract and retain highly skilled talents capable of enhancing performance and improving productivity. It is commonly observed that qualified individuals tend to prefer employment in certain organizations over others. Such preferences are influenced by various factors, among which compensation systems represent a key determinant, as they may function either as a motivating force that encourages employees to exert greater effort and remain within the organization, or as a discouraging factor leading to reduced commitment and turnover.*

This study aims to investigate the role of compensation systems in fostering organizational loyalty. Based on the analysis of the respondents' data, the findings Direct relationship between compensation and organizational loyalty.

KEYWORDS: *Human capital, Direct Compensation, Indirect compensation, Employee motivation, Organizational Loyalty.*

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I. INTRODUCTION

In light of the changes and transformations taking place worldwide, organizations seek to achieve a competitive advantage that distinguishes them from others. Among the key factors contributing to this objective is the effectiveness and efficiency of human resource management in attracting qualified human capital that aligns with the organization's values and goals, thereby achieving outstanding performance. One of the key strategies adopted to attract competent human resources is the implementation of an effective compensation system that ensures, on the one hand, the attraction of qualified talents, and on the other, the retention of existing human resources and the enhancement of organizational loyalty.

Compensation is considered one of the primary factors influencing employees' preference for one organization over another, as it represents a reward for the services and efforts exerted, making employees feel valued and appreciated. This, in turn, motivates them to strive toward achieving organizational goals, as the benefits are mutual for both parties.

II. STATEMENT OF PROBLEM

This study investigates the effectiveness of the compensation system in enhancing organizational commitment and seeks to address the following sub-questions :

- To what extent does direct compensation affect organizational loyalty ?
- How does indirect compensation influence organizational loyalty ?
- What is the importance of adopting an effective compensation system ?

III. LITERATURE REVIEW

• Compensation

According to Larasati (2018) "Compensation is all the rewards received by employees for services delivered by employees to the company".(Reny Meliyana sara, Hermien Tridayanti, 2018,p114).

As Rahul Bharadwaj et al. (2025) comment : "compensation strategies not only address immediate retention issues but also contribute to a company's long-term health, by offering competitive pay, organizations can mitigate the disruptions caused by frequent employee departures, leading to greater continuity and efficiency in daily operations. " (Rahul Bharadwaj1 , Christian B. Teeter,2025,p9). continuity and efficiency in daily operations. " (Rahul Bharadwaj1 , Christian B. Teeter,2025,p9).

- **TYPES OF COMPENSATION**

There are two modes of compensation, namely direct compensation and indirect compensation:

Direct Compensation : is direct payment , (salary, profit sharing , share distribution and various ,other bonuses ...), based on employee performance . (Reny Meliyana sara, Hermien Tridayanti, 2018,p114).

Indirect compensation : refers to Non-monetary benefits such as : (Hospitalization, Insurance, Travel...).

- **Organizational Loyalty**

Allen and Mayer (1997) proposed definition of organizational loyalty as "the strong relationship and attachment between employees and the organization during their career to achieve one or more goals."

Saad bin Abdullah Al-Kalabi defined it as "it is the employee's positive feeling towards his organization and the extent of his attachment to it and his desire to remain a member of it". (Derradji Badreeddine, Slimani Sabrina , Abdelhamid Mahri,2025,p109-110)

IV. Objectives of the study

1. Assessing the importance of compensation from employees perspectives.
2. Identifying the factors influencing the compensation system.
3. Examining the alignment between employees' goals and organizational.
4. Examining the impact of compensation on achieving organizational loyalty.

V. DATA ANALYSIS AND INTERPRETATION

Data were collected through a structured questionnaire designed in accordance with the research objectives. The collected responses were then quantitatively analysed using Microsoft Excel to determine the percentage of the employees' opinion.

QUESTIONNAIRE:

- Questions on Compensation

1-What types of compensation are provided by the organization?

- A. Direct compensation only
- B. Indirect compensation
- C. Both direct and indirect compensation

2-How do you perceive the compensation system in the organization?

- A. Motivating
- B. Not motivating
- C. Somewhat motivating

3-Factors considered when determining compensation:

- A. Employee productivity and performance
- B. Organizational loyalty
- C. No specific criteria

4-How would you describe the organization's current compensation system?

- A. Fair
- B. Unfair
- C. Neutral

5-Do the compensation practices of the organization contribute to attracting talent?

- A. Agree
- B. Disagree
- C. Neutral

- Questions on Organizational loyalty

6-If the organization faces a financial crisis, what would you decide?

- A. Stay with the organization
- B. Leave the organization
- C. Forego salary

7-Does health insurance contribute to reducing absenteeism?

- A. Agree
- B. Disagree
- C. Neutral

8-Effort exerted for the organization:

- A. High
- B. Low
- C. Neutral

9-Do the organization's goals align with your personal goals?

- A. Agree
- B. Disagree
- C. Neutral

10-Employee turnover rate in the organization:

- A. High
- B. Low
- C. Average

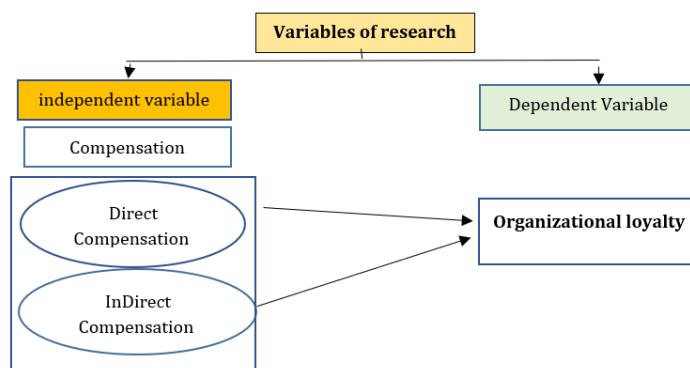
VI. METHODOLOGY

This study employed a descriptive-analytical methodology to examine the phenomena under investigation and analyze the collected data systematically.

Instruments for Data Collection

- A. **Primary Sources** : represented in data which were collected by questionnaire prepared for this purpose
- B. **Secondary Sources** : represented in specialized scientific books, articles and previous researches in this field

Variables of research



VII. Results and Discussion

A- Questions on Compensation

Based on the results, it was found that 73% of employees receive both direct and indirect compensation, which is a common practice in most organizations. This is followed by 27% of employees who receive only direct compensation. This finding can be explained by the fact that, in certain cases, organizations resort to temporary employment for short durations ranging from one to two days; consequently, this category of employees is entitled solely to direct compensation.

Furthermore, 85% of employees perceive the compensation provided as motivating and consider it a form of encouragement, which enables organizations to retain their workforce. In contrast, 15% of employees believe that the compensation is only moderately motivating.

Regarding equity in compensation among employees, 82% of respondents indicated that compensation is fair. As for the determinants of compensation, the results reveal relatively close percentages: 49% of respondents consider performance and productivity to be among the primary factors in determining compensation, followed by 47% who believe that organizational loyalty is also a key determinant. The remaining 4% indicated that no specific criteria are used.

Moreover, all respondents unanimously agreed that the compensation provided contributes significantly to attracting qualified talents.

B- Questions on Organizational loyalty

Based on the findings, it was concluded that 90% of employees would prefer to leave the organization in the event of a financial crisis, indicating that compensation plays a crucial role in achieving organizational loyalty. This is followed by 8% who prefer to remain with the organization, while 2% would choose to forgo their wages.

With regard to health insurance, all respondents confirmed that it contributes to reducing absenteeism, as insurance is perceived as a form of security for employees.

Concerning employee turnover, 69% of respondents indicated that the rate of employee entry and exit is low, which represents a positive indicator, whereas the remaining 31% perceived it as moderate.

Regarding the level of effort exerted, 86% of employees reported exerting a high level of effort to achieve organizational objectives, while 14% indicated a moderate level of effort.

Finally, 73% of respondents consider organizational goals to be aligned with their personal goals, as they believe that achieving organizational objectives will also benefit them through shared gains and profits.

VIII. CONCLUSION

Based on the findings obtained, it can be concluded that compensation, in its various forms—both direct and indirect—plays a fundamental and critical role in achieving organizational loyalty. The results indicate the existence of a direct relationship between compensation and organizational loyalty, where by the more effective and motivating the compensation system is, the higher the level of organizational loyalty, employee attachment to the organization, and commitment to achieving its objectives. This, in turn, has a positive impact on organizational performance. Conversely, when the compensation system is inadequate or poorly designed, employees are more likely to decide to leave the organization in search of better opportunities, which ultimately has a negative impact on the organization.

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