The Impact of Compensation on Employee Performance in China's Information Technology Industry

Shikang Xia[1*] and Rachadatip Uppathampracha[2]

[1]Graduate student, School of Accountancy and Finance, Walailak University.
[2]Academic, School of Political Science and Public Administration, Walailak University.
[*]**Corresponding author, E-mail:** 673357767@qq.com

Abstract

This study investigates the relationship between compensation systems and employee performance in China's dynamically evolving information technology (IT) sector, with a specific focus on Wuhan as a regional innovation hub. Employing quantitative research, data were collected from 538 IT professionals through stratified sampling and validated questionnaires. The results indicate significant positive correlations between both monetary and non-monetary compensation and employee performance. Notably, non-monetary incentives, including career development opportunities and flexible work arrangements, exhibit a slightly stronger impact on contextual performance and goal achievement compared to monetary rewards. These findings contribute to theoretical frameworks by integrating Herzberg's Two-Factor Theory and Social Exchange Theory, offering actionable insights for optimizing talent retention and innovation in knowledge-intensive industries.

Keywords: Compensation, Employee Performance, Information Technology Industry

Introduction

China's information technology industry has developed rapidly, from software development to cloud computing, artificial intelligence, and other fields, and occupies a prominent position in the world with innovation and vitality (Li et al., 2019). In knowledge-intensive industries, the strong correlation between compensation and performance is particularly significant. The core competitiveness of enterprises depends on the efficiency of human capital, and the speed of employee knowledge iteration directly affects the product innovation cycle. The establishment of a performance-based compensation system becomes the key to the sustainable development of the industry (Li & Wang, 2024).

In the highly competitive environment of China's information technology industry, enterprises need to attract and retain high-quality talents. An effective incentive system is an important guarantee to achieve this goal. The compensation system should

compensate employees for the time cost of learning modern technologies and encourage the transformation of knowledge achievements through performance (Bashir et al., 2020). Research shows that when more than a percent of compensation is tied to patent output and project milestones, R&D efficiency can be increased by a factor of 2.3 (Moustaghfir & Fatihi, 2020).

Taking China's information technology industry as the background, this study deeply discusses the impact of compensation on employee performance, aiming to provide enterprises with more effective human resource management strategies and incentive systems and provide policy recommendations for the government to promote sustainable and healthy development of the industry.

Objectives

1. To examine the effect of overall compensation on employee performance in the information technology industry.
2. To investigate the impact of monetary compensation on employee performance in the information technology industry.
3. To explore the impact of non-monetary compensation on employee performance in the information technology industry.

Literature Review, Theories, and Concept Framework

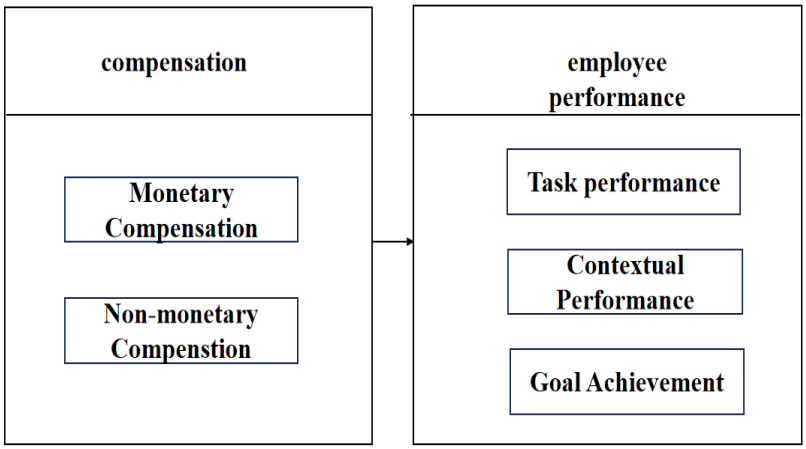
The compensation system refers to the sum of monetary and non-monetary compensation provided by a company to its employees, including basic salary, performance bonuses, and career development opportunities (Timilsina & Basnet, 2024). In China's IT industry, the compensation system needs to consider the speed of technology iteration and the premium price of talent in the market, and its structural design has a direct impact on the technological reserve capacity of the enterprise (Li & Wang, 2024).

Employee performance consists of three dimensions, task performance (core responsibility fulfillment), contextual performance (teamwork and innovation initiative), and goal achievement strategic target achievement rate), which are the key indicators to measure the contribution of knowledge workers (Kumar, 2024). The agile development model in the IT industry requires that performance evaluations dynamically reflect the contribution of the project (Chen, 2024).

The research shows that the compensation system has a significant impact on the performance of employees in China's IT industry. The dual incentive mechanism, which combines monetary and non-monetary compensation, effectively stimulates employees' performance. The results show that a transparent compensation policy is crucial to the sustainable development of a company (Liang et al., 2024).

Social exchange theory reveals the exchange relationship between employees and enterprises based on the principle of reciprocity, that is, the perception of fairness in the compensation system will directly affect employees' organizational loyalty and job performance (Cropanzano et al., 2021). Moreover, Herzberg's Two-Factor Theory divides the compensation system into health factors and incentive factors and promotes innovation performance through non-monetary incentives. Motivated employees promote productive engagement and improve performance and loyalty (Herzberg, 1959).

When employees in the information technology industry are satisfied with their compensation system, they are more likely to show higher performance and loyalty to the organization. To explore the relationship between the compensation system and employee performance, based on social exchange theory (SET) and Herzberg's two-factor theory, this study proposes the following research frameworks and hypotheses:



H1: Compensation of employees in the information technology industry has a positive effect on employee performance.

H2: Monetary compensation for employees in the information technology industry has a positive effect on employee performance.

H3: Non-monetary compensation of employees in the information technology industry has a positive effect on employee performance.

Materials and Methods

This study utilized a quantitative research methodology and surveyed a total of 42,059 employees in the information technology industry in Wuhan, China. A robust sample size of four hundred was determined based on Yamane's formula (Yamane, 1973). To achieve a 70% return rate, 571 questionnaires were distributed to the target employees. Such a sample size ensured high statistical power and generalizability of the findings. Random stratified sampling method was used in this study to increase the

representativeness of the sample and reduce potential sampling bias.

An online survey tool was used to collect data, and the questionnaire was emailed to the target population. The survey was conducted over two weeks to allow sufficient time to collect responses. A total of 538 valid responses were received, representing a 94.2% response rate. The data were then analyzed using the SPSS program; descriptive statistics were used to summarize the data, Pearson's correlation was used to assess the relationship between variables, and multiple regression analysis was used to evaluate the research hypotheses. The reliability of the questionnaire was scored as 0.925 by Cronbach's alpha. The validity of the questionnaire was assessed using the Index of Content Validity (IOC), which was assessed by five reviewers and scored 0.90. This indicates the high internal consistency of the scales.

The questionnaire scoring and interpretation criteria were based on a Likert scale, which permits the conversion of respondents' answers into numbers for statistical analysis. The questionnaire was rated on a 5-point Likert scale ranging from “1 = Strongly Disagree” to “5 = Strongly Agree”. The scale was categorized as 4.21 - 5.00 for strongly agree and 3.41 - 4.20 for agree. Scores ranging from 2.61 to 3.40 indicate neutrality, while scores ranging from 1.81 to 2.60 indicate disagreement.

Results

1.Descriptive Statistics on Compensation And employee performance

Table 1: Monetary Compensation Variable Distribution

Statement	Mean	Stardad deviation	Level of perception
Monetary Compensation	3.517	0.922	agree
1. I am satisfied with the monetary compensation I receive for my work.	3.511	1.155	agree
2. The salary and benefits package offered by my employer meets my financial needs.	3.528	1.169	agree
3. My pay reflects the level of effort and skill required for my position.	3.472	1.137	agree
4. My employer provides competitive financial incentives that motivate me to perform well.	3.53	1.15	agree
5. My employer provides competitive financial incentives that motivate me to perform well.	3.546	1.161	agree
Non- Monetary Compensation	3.459	0.910	agree
6. I am satisfied with the non-monetary compensation I receive for my work.	3.515	1.155	agree
7. I feel valued by the additional benefits and benefits, such as flexible working hours and	3.396	1.169	agree

Statement	Mean	Stardad deviation	Level of perception
remote work options.			
8. My workplace environment and culture contribute positively to my overall job satisfaction.	3.463	1.137	agree
9. I appreciate the support and resources available for maintaining a healthy work-life balance.	3.435	1.15	agree
10. Consistently meet or exceed the performance targets set for my role.	3.489	1.161	agree
Compensation	3.487	0.916	agree

Table 1 shows that the average values of monetary and non-monetary compensation are 3.517 and 3.459, respectively, and the average value of overall compensation is 3.487. On a 5-point scale, these values are between 3.41 - 4.20, indicating that employees in the IT industry agree with their compensation.

Table 2: Descriptive statistics for employee performance

Statement	Mean	Standard deviation	Level of perception
Task Performance	3.517	0.880	agree
11. I effectively manage my workload and complete tasks on time.	3.507	1.129	agree
12. I feel confident in my ability to execute my job responsibilities proficiently. needs.	3.526	1.1	agree
13. My performance has positively contributed to the overall success of my team.	3.483	1.106	agree
14. I regularly seek feedback to improve and enhance my task performance	3.513	1.122	agree
15. I actively support and assist my colleagues when they need help.	3.554	1.155	agree
Contextual performance	3.493	0.891	agree
16. I actively support and assist my colleagues when they need help.	3.509	1.155	agree
17. I contribute positively to the overall team spirit and workplace morale.	3.483	1.126	agree
18. I consistently go beyond my job duties to benefit the organization.	3.474	1.12	agree
19. I adapt well to changes and am flexible in handling new challenges.	3.504	1.092	agree
20. I am taking the initiative to improve processes and suggest innovative solutions.	3.493	1.152	agree
Goal achievement	3.517	0.893	agree
21. I consistently set clear and specific goals	3.491	1.158	agree

Statement	Mean	Standard deviation	Level of perception
for myself and create detailed plans to achieve them.			
22. I consistently set clear and specific goals for myself and create detailed plans to achieve them.	3.511	1.166	agree
23. I regularly track my progress towards my goals and adjust my strategies as needed to stay on course.	3.476	1.105	agree
24. I regularly track my progress towards my goals and adjust my strategies as needed to stay on course.	3.545	1.125	agree
25. I prioritize my goals effectively and manage my time well to ensure that I can accomplish what I set out to do.	3.536	1.112	agree
Employee performance	3.509	0.888	agree

Table 2 shows that the average values for task performance, contextual performance, and goal achievement are 3.517, 3.493, and 3.517, respectively, while the overall average for employee performance is 3.509. On a 5-point scale, these values are between 3.41 - 4.20, indicating that employees' self-evaluation of their work performance is agreeable.

2. Correlation Analysis

This study explores the relationship between compensation and employee performance. The results of the correlation analysis are shown in the table below:

Table 3: Correlation between compensation employee and performance.

Variables	Mean	Stardard deviation	Compensation	Employee Performance
Compensation	3.488	0.781	1	
Employee Performance	3.509	0.695	0.735**	1

Table 3 shows that the mean value of compensation is 3.488 and the standard deviation is 0.781. The mean of performance value is 3.509, the standard deviation is 0.695, and the correlation coefficient between compensation and employee performance is 0.735, which is also highly significant (** denotes $p<0.01$), indicating that there is also a strong positive correlation between compensation and employee performance. The higher the compensation, the higher the employee performance.

Table 4: Relationship between compensation and employee performance

	X1.1	X1.2	Y
X.1.1 Monetary Compensation	1		
X.1.2 Non-Monetary Compensation	0.452**	1	
Y employee performance	0.622**	0.631**	1

As can be seen from the table, the correlation coefficients of non-monetary compensation and employee performance are 0.452 and 0.622, respectively ($p<0.05$), indicating that non-monetary compensation and Y are positively correlated, and the correlation coefficient of non-monetary compensation and employee performance is 0.631 ($p<0.05$). On the surface, there is a significant positive correlation between the two; that is, the higher the compensation, the higher the performance of employees.

3. Regression Analysis

Table 5: Regression analysis of Compensation on employee performance

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta		0.000**	
Constant	1.225	0.093	-	13.141	0.000**	-
Monetary Compensation	0.319	0.025	0.424	12.897	0.000**	1.257
Non-Monetary Compensation	0.335	0.025	0.439	13.379	0.000**	1.257
R2=0.541, Adjusted R2=0.539, F=315.091 sig.=0.000**						

The F statistics are 315.091, and the corresponding p-value is 0.000, which is far less than 0.05, indicating that the model is significant. The coefficient of monetary compensation correlation factor is 0.319, the standard error is 0.025, the standardization coefficient (Beta) is 0.424, the t value is 12.897, and $p<0.001$. The results show that monetary compensation-related factors have significant positive effects on employee performance. The non-monetary compensation factor coefficient is 0.335, the standard error is 0.025, the standardization coefficient (Beta) is 0.439, the t value is 13.379, and $p<0.001$, indicating that non-monetary compensation also has a significant positive influence on employee performance.

Conclusions and Discussion

In this study on the impact of compensation on employee performance in China's information technology industry, three hypotheses are assessed. These findings not only enrich the theoretical framework but also provide important guidance for practice.

H1 results show that compensation level significantly improves employees' job satisfaction, which is consistent with previous studies emphasizing the role of salary in

knowledge-intensive industries (Li et al., 2019). H2 and H3 results show that monetary compensation (such as performance bonuses, and project awards) and non-monetary compensation (such as career development opportunities, and flexible working systems) have a significant impact on employees' performance. This is consistent with the view of social exchange theory (Cropanzano et al., 2017) that reasonable x incentives can enhance organizational loyalty and job performance of employees. Specifically, monetary compensation can effectively promote task performance, while non-monetary compensation is more conducive to promoting contextual performance and goal achievement.

The study confirmed that compensation significantly impacts IT employee performance. Monetary compensation enhances task performance, while non-monetary compensation improves contextual and purposeful performance. This highlights the need for a balanced compensation strategy. The findings align with and extend prior research, offering practical implications for optimizing compensation structures.

Practical implications for enterprises include developing comprehensive compensation packages, ensuring compensation fairness, personalizing compensation strategies, and linking compensation to performance. Alongside organizational measures, institutions and the government may significantly enhance the connection between compensation and employee performance in China's information technology sector. Policymakers must contemplate the formulation of industry-specific compensation standards that foster equitable and competitive practices among firms, guaranteeing that employees get sufficient remuneration commensurate with their talents and contributions. Moreover, providing tax incentives to firms that develop complete and creative pay packages, particularly those that include monetary and non-monetary elements, might promote wider implementation of best practices.

Governmental endorsement of professional development initiatives, including subsidies for technical training or leadership enhancement, would augment non-monetary compensation measures and further elevate employee competencies and motivation. Furthermore, implementing policies that enhance transparency and equality in pay frameworks may mitigate salary discrepancies and cultivate a more content and engaged workforce. These policy-level actions would enhance organizational performance and foster the sustainable expansion of the information technology sector overall.

Future research could extend the investigation of compensation impacts across various stages of enterprise development, diverse industries, and broader regional contexts. It would also be valuable to incorporate additional factors such as organizational culture and leadership style, and to address methodological limitations, particularly the use of self-reported data and the restricted generalizability of findings from a single-city sample.

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