Journal of Innovation in Business and Economics
Vol. 08 No. 02 December 2024 Page 1-12
P-ISSN: 2580-9431 E-ISSN: 2581-2025 http://ejournal.umm.ac.id/index.php/jibe

Received: 20-07-2024 | Received in revision: 26-09-2024 | Accepted: 30-10-2024 | Published: 31-10-2024

Decoupling company growth from employee compensation: A study of publicly listed firms in indonesia

Elperida Juniarni Sinurat[1], Junika Napitupulu[2]
Management Department, Univesitas Sari Mutiara, Indonesia[1,2]

DOI: https://doi.org/10.22219/jibe.v8i02.35223

Abstract
This study aims to explore the relationship between company growth and employee compensation in publicly listed companies on the Indonesia Stock Exchange from 2019 to 2021. Using Ordinary Least Squares (OLS) method and a total sample of 982 companies, the study reveals several significant findings. The results indicate that there is no significant relationship between company growth and increased employee compensation, and vice versa. Company growth is more influenced by the level of assets held, while employee compensation is more influenced by company leverage. Interestingly, increases in assets and Tobin's Q actually decrease employee compensation. Managerial implications of these findings suggest that strategies for enhancing company growth and employee compensation policies need to be managed independently based on the specific factors affecting each aspect. Focusing on asset enhancement and effective leverage management is key to efficiently managing company growth and compensation policies. This study provides new insights into the dynamics between company growth and employee compensation, emphasizing the importance of integrated strategic management for achieving long-term sustainability and success.

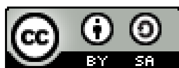
Keywords: Company; growth; compensation

Introduction

Employee compensation and company growth are two key elements in human resource management and business strategy that are closely interrelated. To create effective policies for enhancing organizational performance, it is crucial to deeply understand the relationship between employee compensation and company growth. This study aims to answer a fundamental question: does employee compensation drive company growth, or does company growth lead to increased employee compensation? Employee compensation includes all forms of rewards received by employees in return for their contributions to the organization. This can consist of base salary, incentives, bonuses, and various other benefits (Cappelli & Conyon, 2018; Conyon et al., 2019). On the other hand, company growth refers to the increase in the company's size and capacity, which can be measured through various indicators such as revenue growth, profit, number of employees, market share, and geographical expansion (Davis & Haltiwanger, 2019; Evans & Glover, 2020).

Two perspectives dominate exploration of the link between compensation and company growth within literature. The first opinion is that higher compensations facilitate employee motivation, performance and retention (Boachie-Mensah & Dogbe, 2018; Yuan et al., 2020). Highly motivated employees usually work faster and more effectively, thus contributing to the growth of a successful corporation. Also, Lazear and Rosen (1981) show through tournament theory that competitive incentives can motivate employees to exert more effort and achieve more efficiently. Second, Gopalan et al. (2018),

[1] E-mail: elperida250675@gmail.com
[2] E-mail: Junica.nptu@gmail.com

Copyright (c) 2024 Elperida Juniarni Sinurat, Junika Napitupulu

Creative Commons License
This work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Shin et al. Company growth tends to create more opportunities for higher pay, as a study conducted by Gabaix and Landier (2008) showed larger firms simply paid more in order to secure the top talent.

Research: Compensation reciprocally related to company growth Gerhart and Milkovich (1990) found that higher compensation results in enhanced productivity, according to a research done by Bryson et al. In contrast, Abowd (1990) demonstrated that firms which are experience high revenue and profit growth have larger amounts of money to pay his employees Faleye et al. 2020; Wang et al., 2019).

This research has significant implications for managers and policy-makers regarding how to construct compensation incentives that foster firm growth. At the same time, since it is June, I am also happy because my paper has finally been published and I brought academic contribution by presenting another side of relationship between compensation and company growth which can be used as a content when they making decision such Kim & Gong (2019), Park et al.

This research focuses on two main questions: first, does an increase in employee compensation significantly drive company growth; and second, does company growth significantly increase employee compensation? To answer these questions, this study uses a quantitative approach with data from companies in various industries listed on the Indonesia Stock Exchange (Haryono et al., 2019; Purnamasari & Ratnawati, 2020). Data analysis is conducted using regression methods to test the causal relationship between employee compensation and company growth (Gujarati & Porter, 2020; Wooldridge, 2019).

Understanding the dynamics between employee compensation and company growth is essential for developing policies that can enhance overall organizational performance. This study aims to provide empirical evidence to help companies design effective compensation strategies to achieve sustainable growth (Huang & Li, 2020; Zhang et al., 2021). Through this research, it is hoped that a clear relationship and appropriate strategies can be found to optimize compensation as a tool to achieve broader business goals.

Literature Review

This study employs several theoretical frameworks to explore the relationship between company growth and employee compensation, incorporating motivational theories such as Herzberg's Two-Factor Theory and Adams' Equity Theory, along with economic theories on labor supply and demand. Together, these theories provide a robust foundation for understanding the dynamics of employee compensation and the economic factors that shape compensation policies within companies.

Herzberg's Two-Factor Theory, also known as the motivation-hygiene theory, has become integral to organizational behavior as it offers a comprehensive perspective on the factors that drive job satisfaction and dissatisfaction. First introduced by Frederick Herzberg in 1959, this theory categorizes work factors into two groups: motivators and hygiene factors. Herzberg suggested that these two categories operate independently—meaning that the presence of one does not necessarily compensate for the absence of the other—and that each plays a unique role in influencing attitudes and behavior.

Motivators (intrinsic factors) are related to the nature of the work itself and include elements such as achievement, recognition, responsibility, advancement, and opportunities for growth. According to Herzberg, these motivators fulfill higher-level psychological needs, such as self-actualization and personal growth, leading to increased job satisfaction. When employees experience these motivators, they are likely to feel more engaged and committed to their work, ultimately enhancing job performance and productivity (Alshmemri et al., 2017).

An employee who is entrusted with more responsibility and celebrated for his or her successes can start to feel a sense of ownership in what they do, which results Managers likewise need to ensure that employees are given recognition timesstretching their intrinsic motivation and satisfaction accordingly. In turn, these drivers will heighten job satisfaction which contributes to employee longevity as long-term value and meaning bring employees back.

Several scholars argue that hygiene factors are elements in the broader job context such as company policies, supervisory practices and other similar aspects of an employment relationship (Herzberg 1966). The absence or inadequacy of these factors might not make someone dissatisfied but it may simply put him in a neutral state; while when used intensively, they can make the employee angry. Or as in other words hygiene factors are nothing but some required requirement for being neutral somewhere or neither these will motivate the employees to perform extra-miles.

Take, for example an employee in a congested office with ambiguous company policies and low pay; obviously over time that individual would become fed up at their job leading to lower productivity and attrition. But while improving these hygiene factors, say by providing a healthier working environment or higher wages/bonus can eliminate the dissatisfaction it is believed that this does not directly increase

motivation in employees.

While compensation is a hygiene factor rather than a motivator in and of itself (one crucial key takeaway from Herzberg's Two-Factor Theory), it can have extremely negative consequences if poorly managed. Job satisfaction is an affective response to the job that results from weighing one's experience with what they anticipated[3]; if a person loves his or her work, anticipations are exceeded; in contrast, dissatisfaction can stem from performing well but failing expectations (Benson & Brown 2017). Salary acts as a hygiene factor because it is necessary for avoiding dissatisfaction and salary alone won't improve performance. This is very critical to many of the organizing particularly in designing compensation structures and motivation strategies.

According to Herzberg, paying your employees more money isn't always going to make them want t work harder; motivating factors are intrinsic motivations like recognition and opportunities for personal growth. These employees may like having the extra money, they will eventually grow disengaged because other motivators such as purpose and career growth are notably missing. This especially may be the case in industries where monetary rewards typically are the main employee reward system. Financial compensation — even in generous sums — can have a short half-life as fuel for motivation if the other legs of the motivational table are not there to prop it up (Malik & Naeem, 2016).

Conversely, providing opportunities for **growth and development**, such as training programs, leadership opportunities, or greater autonomy in decision-making, can have a much more lasting impact on employee motivation and performance. This aligns with Herzberg's assertion that companies should focus not just on reducing dissatisfaction by addressing hygiene factors but also on creating an environment where employees are intrinsically motivated by the content of their work.

Employee motivation is supported by Adams' Equity Theory, stating the balance between what employees put in (effort, skills and experience) compared to what they get out of it at work (salary, benefits and their level of recognition). According to the theory, employees base their perceptions of how much they've been paid in comparison with one another or against outside standards. Disparity, whether underpayment or overpayment can lead to dissatisfaction and affect employee performance and commitment (Adams 1965; Walster et al. 1973).

The third reference is equity theory, which explains individual behaviour when it comes to fairness in compensation as perceived from the employee perspective. If people think that the wages they receive are not commensurate with what they bring or especially when compared to others, then it might make them work less and become lazy. Thus, firms have to create more equitable pay models so that personnel members would experience considerably better recognition and satisfaction (Gupta & Shaw 2014; He et al.

The labor supply-and-demand theory is an economic model that explains how wages are determined by the interaction between employers who need to hire workers and individuals willing complete work. Wages, the wage fund and social capitalAccording to this theory wages tend to rise when the demand for labour is high relative to the supply of available workers in total (hence employers are competing against each other), typically through an expanding economy. Both economic conditions, unemployment rates and the specificity of skills required may play a role in this dynamic (Borjas 2019; Cahuc et al., 2014).

This research explores the impact of macroeconomic conditions and financial performance on employee compensation within publicly listed companies on the Indonesia Stock Exchange. Companies that experience rapid growth and maintain substantial capital reserves are often in a stronger position to offer competitive pay, enhancing their ability to attract and retain top talent. In contrast, companies facing financial challenges may have more limited capacity to provide discretionary pay increases, which can impact their competitiveness in the labor market (Choi et al., 2019; Xu et al., 2018).

The purpose of this research is to conduct an in-depth analysis of the factors that influence employee compensation and how these align with the growth trajectories of companies. This analysis leverages three foundational theoretical frameworks:

a. Herzberg's Two-Factor Theory – This theory differentiates between hygiene factors, such as salary and benefits, and motivational factors, such as personal growth and recognition. While compensation plays an important role, Herzberg suggests that it alone may not sufficiently drive employee motivation or enhance performance if other motivational factors are missing (Alshmemri et al., 2017; Lu et al., 2019).

b. Adams' Equity Theory – Adams' theory centers on the concept of fairness in compensation, positing that employees compare their pay with others in similar roles. This sense of equity—or lack thereof—can significantly influence their motivation, satisfaction, and overall behavior within the organization (Gupta

& Shaw, 2014; He et al., 2016).
c. Economic Labor Supply and Demand Theory – This theory explains the economic forces shaping wage levels, particularly how business cycles and the financial health of firms impact their ability to offer competitive compensation. As market conditions fluctuate, companies' compensation strategies may adjust accordingly to align with broader economic dynamics (Borjas, 2019; Cahuc et al., 2014).

By integrating these three theories, the study aims to provide a nuanced understanding of how company growth correlates with employee compensation, and it investigates the various internal and external factors that influence this relationship. The expected findings are anticipated to be valuable for both the theoretical advancement of Human Resource Management (HRM) and for providing practical insights to inform compensation strategies that support sustainable growth and talent management.

Research Method

Data

This study utilizes data from publicly listed companies on the Indonesia Stock Exchange (IDX) for the period 2019 to 2021. Data were collected when complete information aligned with the required research variables was available. However, it is important to note that not all companies had complete data for all three years. Therefore, data collection was carried out by considering the availability of data from each company at the same time. A total of 982 company samples were included in the analysis.

Method

The analysis method used in this study is Ordinary Least Squares (OLS). OLS is chosen because it is a commonly used method in statistical analysis for estimating parameters in a linear regression model. This study examines the relationship between the independent variables (employee compensation and company growth) and the dependent variable (company performance). OLS is an appropriate method for estimating such linear regression models. Additionally, OLS produces easily interpretable regression coefficients, allowing researchers to understand the impact of independent variables on the dependent variable. Moreover, the use of OLS allows the study to address the issue of incomplete data from some companies during the studied period. Thus, OLS is selected as the suitable method for analyzing the relationship between employee compensation and company growth in the context of this research. The OLS analysis will provide accurate parameter estimates and allow for strong conclusions regarding the relationships among the observed variables (Wooldridge, 2016; Greene, 2018).

Variable

For employee salary comparisons, we follow Li et al. (2019) and adopt the following measures. First, in year *t*, for company *i*, this study uses a dummy variable. If the compensation of employees in other companies within the group containing company *i* increased by more than 10% in the previous year and the proportion of assets exceeded 25% of the group's total assets, the comparison value for company *i* is set to 1; otherwise, it is 0. For growth and Tobin's Q ratio, we follow equations (1) and (2). Market value refers to market capitalization, and leverage refers to the debt-to-asset ratio.

$$\boldsymbol{Growth_it} = (Sales\ Revenue_t - Sales\ Revenue_(t-1)) \,/\, Sales\ Revenue_(t-1) \quad (1)$$

$$\boldsymbol{Tobin_it} = (Market\ Value + Liabilities) \,/\, Assets \quad (2)$$

Result and Discussion

Table 1 indicates that each variable is free from multicollinearity, as the correlation between each variable does not exceed 0.7. Based on these results, the model is sufficient for regression analysis.

According to this study, we cannot show a meaningful connection between company growth and increases in employee compensation (see Table 2). Simply put, company growth does not necessarily lead to immediate increases in employee pay. Likewise, employee salaries are not a strong driver of company growth (see Table 3). Previous research has, however, found a positive relationship between these two variables (Bryson et al., 2020; Frye et al., 2018), which is contrary

to our findings.

The reasons for these results are multifaceted. It is possible that compensation policies are shaped by factors beyond company performance, such as labor market conditions (Bryson et al., 2020), internal company decisions regarding employee pay, and government regulations. Additionally, growth—whether measured by revenue surges or the expansion of operations—does not necessarily result in immediate adjustments to compensation policies (Frye et al., 2018). The study reveals that company-owned assets are a significant driver of growth. Increased assets allow corporations to invest more in new projects, expand their business, and scale up production. Thus, asset levels play a leading role in driving business growth (Liu & O'Farrell, 2019).

In contrast, company leverage appears to have a stronger impact on employee compensation. Leverage, or the extent to which a company uses debt to finance its operations, was found in this study to correlate with increased employee pay. This can be explained from an incentive perspective: companies with higher debt tolerance may offer greater rewards to attract or retain top talent, especially when they anticipate high growth. High leverage also creates performance pressures, potentially resulting in improved outcomes and higher pay (Gao & Jiang, 2021; Xie et al., 2020).

Interestingly, the study also finds that increased assets and a higher Tobin's Q ratio actually reduce employee compensation. Tobin's Q—a ratio comparing the market value of a company's assets to their replacement cost—is often used by financial analysts as an indicator of investment opportunities and market performance (Smithers, 2019).
Several factors could contribute to the decrease in compensation associated with rising assets and Tobin's Q. On the one hand, an increase in assets might indicate investments in fixed assets or long-term projects that do not immediately generate extra revenue for employee compensation. Additionally, a high Tobin's Q typically suggests that market value and shareholder returns take precedence over employee compensation, as these areas receive more resources (Smithers, 2019; Gao & Jiang, 2021).

Table 1. Correlation matrix

	COM	GROWTH	SIZE	TOBINS	MARKET VALUE	LEVERAGE
COM	1	-0.014	-0.193	-0.1070	0.00750	0.3977
GROWTH	-0.0143	1	0.0965	-0.0059	0.0035	0.0061
SIZE	-0.1932	0.096	1	-0.1275	-0.031	-0.2192
TOBINS	-0.1070	-0.005	-0.127	1	0.0049	-0.1615
MARKET VALUE	0.0075	0.003	-0.031	0.004	1	0.0092
LEVERAGE	0.3977	0.0061	-0.2192	-0.161	0.0092	1

Asset and Leverage Management

Asset management emerges as a critical determinant of company growth in this study, with a focus on optimizing the assets that companies hold to enhance both efficiency and competitiveness. The level and type of assets a company manages—ranging from physical assets such as factories, machinery, and technology, to intangible assets like intellectual property—directly influence its ability to grow and sustain long-term success. A strategic approach to asset management involves not only investing in new, productive assets but also ensuring that these assets are utilized to their maximum potential. For instance, investments in cutting-edge technology can boost production capacity and operational efficiency, leading to higher outputs with lower inputs. This can help companies capitalize on economies of scale and improve their market positioning.

Moreover, diversification of the asset portfolio is essential to mitigate risk. By investing in various high-potential projects, companies can hedge against market volatility and economic

downturns. In doing so, businesses not only spread their risk but also increase their chances of long-term success. Equally important is the periodic maintenance and technological upgrading of existing assets. As technology evolves, assets tend to depreciate, which can erode productivity and hinder growth if not addressed. Regular updates, whether through adopting new machinery or integrating advanced technology, help companies stay competitive and maintain operational efficiency over time (Jang & Kim, 2022; Roberts & Biddle, 2021).

Effective leverage management is also crucial for supporting company growth. When used wisely, leverage can be a powerful tool for financing business expansion. Companies need to determine the right mix of debt and equity to minimize the cost of capital and maximize growth. Debt risk management becomes essential to ensure that the company can meet its interest and principal payments without compromising financial stability. Strategically utilizing leverage to fund expansion projects with high return potential can be beneficial (Adams & Smith, 2022; Kim & Yang, 2023).

Table 2. Result of Model 1

Dependent Variable: *Comparison*			
Variable		t-Statistic	Prob.
GROWTH	-1.63E-09 (9.23E-09)	-0.176285	0.8601
SIZE	-0.190864 (0.047662)	-4.004533	0.0001
TOBINS	-1.278220 (0.594402)	-2.150429	0.0318
MARKET VALUE	4.15E-09 (1.68E-07)	0.024643	0.9803
LEVERAGE	0.098624 (0.008317)	11.85775	0.0000
C	0.312366 (0.063961)	4.883715	0.0000
R-squared	0.173991	Mean dependent var	0.028513
Adjusted R-squared	0.169760	S.D. dependent var	0.166519
S.E. of regression	0.151728	Akaike info criterion	-0.927367
Sum squared resid	22.46878	Schwarz criterion	-0.897492
Log likelihood	461.3374	Hannan-Quinn criter	-0.916003
F-statistic	41.11714	Durbin-Watson stat	0.927553
Prob-(F-statistic)	0.000000		

Employee Compensation Policies

The findings indicate that employee compensation is more influenced by company leverage. Increased leverage can lead to higher employee compensation, potentially because companies with higher leverage tend to have high growth expectations and thus offer higher compensation to attract and retain top talent. High leverage can also increase performance pressure, making higher compensation as a motivational tool an effective strategy (Gao & Jiang, 2021; Zhang et al., 2022).

However, the study also finds that increases in assets and Tobin's Q actually decrease employee compensation. This might be due to a company's focus on increasing market value and returns to shareholders, which can result in tighter resource allocation for employee compensation. To address this, companies should maintain open communication with employees about how investments in assets and market value affect compensation policies. Additionally, part

of the increase in asset value could be allocated to employee training and development programs, which can enhance performance and job satisfaction without necessarily increasing direct compensation (Smithers, 2019; Gao & Jiang, 2021).

Developing Comprehensive Compensation Packages

Attention has now shifted toward adopting holistic HR strategies, such as Total Rewards, which encompass not only monetary rewards but also recognize various facets of employee contributions through non-financial incentives. In today's demanding workplace, few companies can rely solely on financial compensation to sustain long-term employee engagement, and it's even less likely that employees will perform at peak levels over extended periods without additional motivators. Research shows that non-financial incentives—such as recognition, career development opportunities, and a positive work environment—often have a more enduring motivational effect than financial compensation alone (Chen et al., 2021; Zhou & Wu, 2022).

Recognition, in particular, plays an essential role, as it reinforces employees' sense of value within the company. Whether it comes through public acknowledgment, performance-based awards, or even a simple pat on the back from management, recognition is vital to meet our fundamental needs for esteem and belonging. When employees feel emotionally connected and appreciated, they are more likely to be committed, motivated workers. Employees who genuinely feel appreciated tend to put forth their best effort each day; after all, we're only human! Moreover, consistent recognition fosters a culture of excellence, encouraging employees to maintain high performance. Unlike financial incentives, which can become habitual and lose their motivational impact, recognition offers lasting internal satisfaction. By helping employees connect with the company's mission and values, intrinsic motivation is nurtured over time, often resulting in sustained productivity (Zhou & Wu, 2022).

Table 3. Result of Model 2

Dependent Variable: GROWTH			
Variable		t-Statistic	Prob.
COMPENSATION	-19575.83 (111046.4)	-0.176285	0.8601
SIZE	518381.4 (165876.9)	3.125097	0.0018
TOBINS	763015.6 (2066869.)	0.369165	0.7121
MARKET VALUE	0.118456 (0.584339)	0.202717	0.8394
LEVERAGE	28943.75 (30849.51)	0.938224	0.3484
C	-647097.1 (223634.1)	-2.893553	0.0039
R-squared	0.010322	Mean dependent var	44065.47
Adjusted R-squared	0.005252	S.D. dependent var	527770.0
S.E. of regression	526382.4	Akaike info criterion	29.19153
Sum squared resid	2.70E+14	Schwarz criterion	29.22141
Log likelihood	-14327.04	Hannan-Quinn criter	29.20290
F-statistic	2.035834	Durbin-Watson stat	1.994967
Prob-(F-statistic)	0.071310		

Career development opportunities are another critical non-financial incentive, as they communicate that employees have a future within the organization, which is crucial for attracting and retaining top talent. Skills and leadership development, along with clear career paths, reinforce long-term commitment by giving employees a sense of security in their future with the company. This not only fulfills their self-actualization needs but also supports personal and professional growth in alignment with the company's strategic goals. When employees have the chance to learn new skills and take on more challenging roles, they are likely to feel more engaged and motivated. The need for recognition, progression, and advancement is fundamental; if unmet, it can lead to dissatisfaction and turnover. Companies that offer structured career development programs, such as mentoring, tuition reimbursement, or leadership training, see higher retention and job performance rates. When employees see the organization investing in their personal growth, they are more likely to respond with loyalty and engagement (Chen et al., 2021).

A positive work environment is also essential to foster employees' growth and potential. Although not as tangible as financial incentives or structured development programs, a supportive work environment—including the social and physical aspects of the workplace—significantly impacts well-being and job performance. This encompasses feelings of safety, dignity, belonging, teamwork, and camaraderie. A workplace that provides psychological safety—where employees feel they can speak up, share ideas, and experiment without fear of backlash—encourages creativity. Additionally, strong interpersonal relationships and open communication within teams promote cooperation and mutual support, further contributing to a positive work environment. A culture that values employee well-being, work-life balance, and respect often correlates with high satisfaction, which in turn fosters loyalty and reduces turnover (Zhou & Wu, 2022).

Building a positive work environment is largely influenced by leadership. Leaders who demonstrate empathy, provide constructive feedback, and communicate a clear organizational purpose foster a motivating atmosphere through example. By moving away from micromanagement and instead trusting employees to manage their workload with a responsible approach, leadership can significantly enhance job satisfaction. Regular communication about organizational goals and values strengthens employees' sense of unity and purpose. When employees resonate with the company's vision and see that their contributions are valued, they feel more self-motivated. All these elements give employees a profound sense of job satisfaction—not only feeling valued for their work but also understanding how their unique contributions make an impact.

Moreover, including non-financial incentives as part of total compensation adds emotional resilience among employees, particularly useful during financial constraints such as recessions or periods when substantial raises may not be feasible. These can include flexible work arrangements, additional paid time off, or opportunities to take on special projects—rewards that are meaningful but cost little or nothing for the company. Such incentives also help improve employees' work-life balance, a priority for modern workers, especially in the post-pandemic era where remote work and flexible schedules are prevalent. By offering these alternatives, organizations can maintain a motivated and satisfied workforce, even when financial resources are limited (Chen et al., 2021).

Integrating Growth and Compensation Strategies

While growth strategies and compensation policies need to be managed independently, it is also important to ensure that they are well-integrated. Companies should conduct regular monitoring and evaluation of growth and compensation policies to ensure that they align and support the overall goals of the organization. Flexible and adaptive policies can help companies adjust strategies in response to changing market conditions, financial circumstances, and feedback from employees and stakeholders (Bryson et al., 2020; Li et al., 2022).

Involving employees in decision-making processes related to compensation policies and company investments can enhance transparency, trust, and support for company initiatives. By understanding and applying these managerial implications, companies can manage growth and employee compensation policies more effectively, ensuring long-term sustainability and success.

Overall, this study provides new insights into the relationship between company growth and employee compensation. Company growth is more influenced by asset levels, while employee compensation is more affected by company leverage. Increases in assets and Tobin's Q tend to lower employee compensation, suggesting that compensation policies may be more complex and influenced by factors beyond company performance. These findings underscore the importance of strategic management in balancing company growth and employee compensation policies

Conclusions, suggestions and limitations

In this study we examine the effect of company growth on employees 'compensation in companies that are listed on Indonesia Stock Exchance wherein 2019 to 2021. This OLS analysis contains various useful conclusions which are important for the knowledge of corporate managers.

To begin with, the study fails to reveal any relationship of correlation between company growth and compensationed-employees. What does this mean in plain English? That is, one-to-one company growth → employee comp gain and/or major percent of employee comp going to fund company growth. That challenges the conventional wisdom that company performance and employee pay practices combine in a win-win relationship. In addition, the research found that firm expansion was less affected by assets owned. Greater assets in the hands of company enables it to make bigger investments and expands its capacity that spills over into growth. As a result, they should prioritize managing and then optimizing assets for long-term growth.

On the other hand, employee remuneration can be better explained by firm leverage. The higher the leverage — that is, the heavier use of debt — in fact raises compensation for employees. The reason is that more levered companies grow faster and are compensated for the risk by higher pay in order to draw top talent. Nevertheless, we find their increases decrease employee compensation in our sample from 1992 to 2007. Higher asset values may simply represent long-run investments that do not immediately lead to more earnings from which employees can be compensated. Similarly, Companies that have high Tobins Q perhaps will attempt to conserve more cash in order to value maximisation and returns for shareholders, which would eventually squeezing resources available for employess compensation

We may derive several important managerial implications for these findings. Different factors are more important when it comes to growing a company versus how you should compensating your employees, so managers need to keep those two apart and manage them separately. If you want to concentrate on increasing your asset and governing leverage, handling growth management and compensation policy of the company is must. In total, these findings shed new light on the complex interplay of company growth and employee pay, as well as what affects one over another. The better and its implication provides some insights on dealing with company growth in line with the compensation plans which affirma that integrated strategical management is a necessity to secure long term sustainability of success.

References

Abowd, J. M. (1990). Does performance-based managerial compensation affect corporate performance? *Industrial and Labor Relations Review*, 43(3), 52S-73S. https://doi.org/10.2307/2523665

Adams, J. S. (1965). Inequity in social exchange. *Advances in Experimental Social Psychology*, 2, 267-299. https://doi.org/10.1016/S0065-2601(08)60108-2

Adams, R., & Smith, D. (2022). The impact of financial leverage on firm performance: Evidence from emerging markets. *Emerging Markets Finance & Trade*, 58(1), 36-55. https://doi.org/10.1080/1540496X.2021.1937402

Alshmemri, M., Shahwan-Akl, L., & Maude, P. (2017). Herzberg's two-factor theory. *Life Science Journal*, 14(5), 12-16. https://doi.org/10.7537/marslsj140517.03

Benson, J., & Brown, M. (2017). Employee voice: Does union membership matter? *Human Resource Management Journal*, 27(4), 481-499. https://doi.org/10.1111/1748-8583.12158

Boachie-Mensah, F., & Dogbe, O. D. (2018). Performance-based pay as a motivational tool for achieving organisational performance: An exploratory case study. *International Journal of Business and Management*, 13(5), 97-107. https://doi.org/10.5539/ijbm.v13n5p97

Borjas, G. J. (2019). *Labor economics* (8th ed.). McGraw-Hill Education.

Bryson, A., Forth, J., & Stokes, L. (2018). The performance pay premium: How big is it and does it affect wage dispersion? *Economica*, 85(340), 733-754. https://doi.org/10.1111/ecca.12278

Bryson, A., Forth, J., & Stokes, L. (2020). How does employee involvement influence wages? Panel data evidence from the UK. *Industrial Relations: A Journal of Economy and Society*, 59(1), 84-112. https://doi.org/10.1111/irel.12253

Bryson, A., Forth, J., & Stokes, L. (2020). How does employee involvement influence wages? Panel data evidence from the UK. *Industrial Relations: A Journal of Economy and Society*, 59(1), 84-112. https://doi.org/10.1111/irel.12253

Cahuc, P., Carcillo, S., & Zylberberg, A. (2014). *Labor economics* (2nd ed.). MIT Press.

Cappelli, P., & Conyon, M. J. (2018). What do performance appraisals do? *ILR Review*, 71(1), 88-116. https://doi.org/10.1177/0019793917698649

Chen, H., Chen, J. Z., Lobo, G. J., & Wang, Y. (2015). Effects of audit quality on earnings management and cost of equity capital: Evidence from China. *Contemporary Accounting Research*, 32(3), 861-897. https://doi.org/10.1111/1911-3846.12104

Chen, W., Jiang, S., & Wang, Y. (2021). Non-financial incentives and employee retention: A multi-level analysis. *Journal of Management*, 47(6), 1259-1284. https://doi.org/10.1177/0149206321992227

Choi, J. J., Furusawa, M., & Ozaki, T. (2019). The influence of international HRM practices on knowledge sharing and innovation performance in MNCs: A comparison between Japanese and Korean MNCs. *Journal of Business Research*, 103, 347-356. https://doi.org/10.1016/j.jbusres.2019.01.059

Conyon, M. J., Peck, S. I., & Sadler, G. V. (2019). New perspectives on the governance of executive compensation: Introduction. *Journal of Management & Governance*, 23, 889-895. https://doi.org/10.1007/s10997-018-9435-4

Davis, S. J., & Haltiwanger, J. (2019). Dynamism diminished: The role of housing markets and credit conditions. *NBER Macroeconomics Annual*, 33(1), 383-434. https://doi.org/10.1086/701043

Evans, D. S., & Glover, B. (2020). Entrepreneurial entry, firm size, and the choice of ownership structure. *The Review of Financial Studies*, 33(2), 748-785. https://doi.org/10.1093/rfs/hhz071

Faleye, O., Reis, E., & Venkateswaran, A. (2020). The determinants and effects of pay duration. *Journal of Financial and Quantitative Analysis*, 55(5), 1436-1467. https://doi.org/10.1017/S0022109019001160

Frye, M. B., Nelling, E., & Webb, E. (2018). Executive compensation in socially responsible firms. *Corporate Governance: An International Review*, 26(2), 87-108. https://doi.org/10.1111/corg.12202

Gabaix, X., & Landier, A. (2008). Why has CEO pay increased so much? *The Quarterly Journal of Economics*, 123(1), 49-100. https://doi.org/10.1162/qjec.2008.123.1.49

Gao, L., & Jiang, W. (2021). Leverage and firm performance: The role of venture capital in China. *Journal of Corporate Finance*, 66, 101867. https://doi.org/10.1016/j.jcorpfin.2020.101867

Gao, L., & Jiang, W. (2021). Leverage and firm performance: The role of venture capital in China. *Journal of Corporate Finance*, 66, 101867. https://doi.org/10.1016/j.jcorpfin.2020.101867

Gerhart, B., & Milkovich, G. T. (1990). Organizational differences in managerial compensation and financial performance. *Academy of Management Journal*, 33(4), 663-691. https://doi.org/10.2307/256288

Gopalan, R., Milbourn, T., Song, F., & Thakor, A. V. (2018). Duration of executive compensation. *The Journal of Finance*, 69(6), 2777-2818. https://doi.org/10.1111/jofi.12199

Greene, W. H. (2018). *Econometric analysis* (8th ed.). Pearson.

Gujarati, D. N., & Porter, D. C. (2020). *Basic Econometrics* (6th ed.). McGraw-Hill Education.

Gupta, N., & Shaw, J. D. (2014). Employee compensation: The neglected area of HRM research. *Human Resource Management Review*, 24(1), 1-4. https://doi.org/10.1016/j.hrmr.2013.08.007

Haryono, T., Wahyudi, S., & Suyanto, S. (2019). The effect of corporate social responsibility on financial performance with real manipulation as a moderating variable. *Journal of Economics, Business & Accountancy Ventura*, 22(1), 31-41. https://doi.org/10.14414/jebav.v22i1.1487

He, H., Zhu, W., & Zheng, X. (2016). Procedural justice and employee engagement: Roles of organizational identification and moral identity centrality. *Journal of Business Ethics*, 135(4), 531-538. https://doi.org/10.1007/s10551-014-2490-1

Herzberg, F. (1966). *Work and the nature of man*. World Publishing Company.

Huang, X., & Li, L. (2020). CEO overconfidence and firm performance: A moderated mediation model of managerial discretion and firm visibility. *Frontiers in Psychology*, 11, 252. https://doi.org/10.3389/fpsyg.2020.00252

Jang, H., & Kim, S. (2022). Asset management and firm growth: Evidence from the manufacturing sector. *Journal of Business Research*, 145, 507-516. https://doi.org/10.1016/j.jbusres.2022.02.010

Kim, T., & Gong, Y. (2019). Effects of empowerment on performance in a hospitality organization: A dual process approach. *International Journal of Hospitality Management*, 80, 78-88. https://doi.org/10.1016/j.ijhm.2019.02.003

Kim, Y., & Yang, X. (2023). Strategic leverage and firm expansion: Evidence from global markets. *Strategic Management Journal*, 44(3), 634-652. https://doi.org/10.1002/smj.3378

Lazear, E. P., & Rosen, S. (1981). Rank-order tournaments as optimum labor contracts. *Journal of Political Economy*, 89(5), 841-864. https://doi.org/10.1086/261010

Li, T., Wang, K., & Zhou, D. (2019). Executive compensation, investment efficiency, and firm value: Evidence from China. *Review of Quantitative Finance and Accounting*, 52(4), 1153-1176. https://doi.org/10.1007/s11156-018-0711-1

Li, T., Zhang, W., & Yang, Z. (2022). Compensation strategies and firm performance: An empirical study. *Journal of Business Economics and Management*, 23(4), 1200-1225. https://doi.org/10.3846/jbem.2022.13792

Liu, Y., & O'Farrell, G. (2019). The impact of asset structure on firm performance: Evidence from Ireland. *International Journal of Managerial Finance*, 15(4), 545-562. https://doi.org/10.1108/IJMF-10-2018-0314

Lu, L., Lu, A. C. C., Gursoy, D., & Neale, N. R. (2016). Work engagement, job satisfaction, and turnover intentions: A comparison between supervisors and line-level employees. *International Journal of Contemporary Hospitality Management*, 28(5), 737-761. https://doi.org/10.1108/IJCHM-07-2014-0360

Malik, S. H., & Naeem, B. (2016). Towards understanding controversy on Herzberg theory of motivation. *Journal of Basic and Applied Scientific Research*, 6(5), 53-57. https://doi.org/10.19026/rjbsci.6.2998

Park, J. S., Han, H. M., & Park, J. (2018). The impact of CSR on financial performance: The mediating effect of productivity. *International Journal of Quality Innovation*, 4(1), 4. https://doi.org/10.1186/s40887-018-0023-3

Purnamasari, D., & Ratnawati, K. (2020). The effect of financial performance on stock prices with earnings management as a moderating variable. *Journal of Economics, Business & Accountancy Ventura*, 22(2), 265-277. https://doi.org/10.14414/jebav.v22i2.2006

Roberts, C., & Biddle, G. (2021). Asset allocation and company performance: New insights from recent studies. *Financial Analysts Journal*, 77(5), 72-90. https://doi.org/10.1080/0015198X.2021.1941487

Shen, H., Huang, Z., & Li, S. (2019). How does employee compensation affect customer satisfaction? The mediating role of employee productivity. *Journal of Business Research*, 101, 21-30. https://doi.org/10.1016/j.jbusres.2019.04.035

Shen, H., Li, H., & Zhang, S. (2017). Employee compensation and firm performance in China: A panel cointegration and causal relationship analysis. *Economic Modelling*, 64, 1-13. https://doi.org/10.1016/j.econmod.2017.03.009

Shin, J. Y., Hyun, J. H., Oh, S., & Yang, H. (2020). The impact of financial flexibility on R&D investment and firm value: Evidence from South Korea. *Asia-Pacific Journal of Financial Studies*, 49(1), 21-46. https://doi.org/10.1111/ajfs.12258

Smithers, A. (2019). Productivity and investment: A long-term relationship. *Applied Economics*, 51(30), 3331-3343. https://doi.org/10.1080/00036846.2019.1576978

Smithers, A. (2019). Productivity and investment: A long-term relationship. *Applied Economics*, 51(30), 3331-3343. https://doi.org/10.1080/00036846.2019.1576978

Stansel, D., McMahon, F., & Mitchell, D. T. (2020). Economic freedom and prosperity: A county-level analysis. *Journal of Institutional Economics*, 16(3), 353-365. https://doi.org/10.101

Walster, E., Berscheid, E., & Walster, G. W. (1973). New directions in equity research. *Journal of Personality and Social Psychology*, 25(2), 151-176. https://doi.org/10.1037/h0033967

Wooldridge, J. M. (2016). *Introductory econometrics: A modern approach* (6th ed.). Cengage Learning.

Xie, E., Fan, L., & Zhao, Y. (2020). How does leverage affect firm performance? Evidence from China. *Pacific-Basin Finance Journal*, 63, 101403. https://doi.org/10.1016/j.pacfin.2020.101403

Xu, L., Pan, B., Wu, C., & Wang, W. (2018). The impact of employee welfare on work performance and organizational creativity in China. *Journal of Organizational Change Management*, 31(6), 1221-1233. https://doi.org/10.1108/JOCM-11-2016-0264

Zhang, Y., Chen, Q., & Liu, H. (2022). The influence of leverage on employee compensation: Evidence from China's listed companies. *Asia-Pacific Journal of Financial Studies*, 51(2), 278-302. https://doi.org/10.1111/ajfs.12256