

## **THE INFLUENCE OF THE AMOUNT OF MATERIAL COMPENSATION PER EMPLOYEE ON THE COMPANY'S BUSINESS**

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**Abstract:** *In order to evaluate the impact of the amount of material compensation per employee on the performance of the company, the authors systematically analysed amount of material compensation per employee, total income, total expenses, net profit margin and return on equity in small, medium and large companies in the five observed counties of the Republic of Croatia. The aim of the paper is to analyse the connection between the amount of material compensation of employees and the performance of the company. The research in the paper was conducted based on data provided by the Financial Agency, a leading Croatian company in the field of providing financial and electronic services. The research was conducted on a sample of 3,914 small, medium and large companies. In the research part of the paper, Spearman's correlation coefficient which is a non-parametric equivalent of Pearson's correlation coefficient (product of rank correlation), was used to assess the relationship between the variables of average monthly net wage and salary per employee, total income, total expenses, net profit margin, return on equity. The results indicate that there are significant differences between the size of the company and the observed parameters (average monthly net wages and salaries per employee, total income, total expenses, net profit margin, and return on equity). Based on an extensive analysis of data, obtained results indicate that the given correlation matrix of the connection between the average monthly net wage and salary per employee with the observed parameters for all years shows that all parameters are statistically significantly correlated. This paper provides an insight into the importance of human resources and their proper management on the company business, regardless of their size. Statistical analysis of research data was performed by statistical software MedCalc® Statistical Software and SPSS Statistics for Windows.*

**Key words:** material compensations, motivation, successful business.

**JEL classification:** J24, J33.

## INTRODUCTION

One of the key factors in human resources management is employee motivation. (Buntek, Drožđek, & Kovačić, 2013). Motivation can be defined as “an internal state of the organism that moves people towards a goal and results in the satisfaction of needs and extinguishing of motives” (Kesić, 2006). Therefore, motivation is a process, and it takes place through four stages: the manifestation of a need, activation of the organism, recognition of the need, goal. Motive is defined as “a permanent predisposition that directs behavior towards a certain goal” (Previšić & Ozretić Došen, 2007). Employee motivation is determined by numerous factors, and according to (Tafra, Graovac, & Budimir Šoško, 2017) these are: reward policy within the company, interpersonal relationships, satisfaction of material needs, relationship with superiors, benefits received, suitable working hours, independence in decision-making and advancement opportunities and others. Employees are an integral part of a company’s success in multiple dimensions, from driving productivity and innovation to shaping organizational culture and increasing customer satisfaction. Human resources of companies represent their most valuable assets (Hafeez & Abdelmeguid, 2003), which is why, as previously stated, they are noticed, recognized and valued in the market.

The key element of the success of any organization is recognized within human resources (Young & Thyil, 2009) and their potential in terms of competence, creativity, innovation, attitudes and motivation, more precisely, within its human capital. Human resources and human capital are factors of future organizational success and development (Kazlauskaitė & Buciuniene, 2008) (Zink, 2008).

This paper is about the importance of employees, the importance of their motivation and the influence of that motivation on the success of the company’s business. The aim of the paper is to analyze the connection between the level of material compensation of employees and the success of the company’s operations.<sup>1</sup>

## LITERATURE REVIEW

Empirical review of the influence of employee motivation on company performance reveals a significant relationship between these two factors. Numerous studies have investigated various aspects of employee motivation and its effects on organizational outcomes, including productivity, profitability, innovation, and overall performance. Here is a summary of key findings from the literature.

Edwin Locke and Gary Latham’s research on goal-setting theory has demonstrated that setting specific, challenging goals can significantly increase employee motivation and performance. Their studies have shown that employees who are motivated by clear and challenging goals tend to exhibit higher levels of effort and persistence, leading to improved productivity. (Locke & Latham, 2006) Kulaš Miroslavjević, Martić & Novaković in their research concluded that non-material motivation strategies are often more important to employees than salaries and other material rewards which can also be connected with Frederick Herzberg’s Two-factor theory distinguishes between hygiene factors for example working conditions, salary, job security and motivators for

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<sup>1</sup> Data presented in this paper are a segment of the empirical part of the author’s doctoral dissertation which analyses the influence of material compensation on business operations in the conditions of the economic crisis

example recognition, achievement, and responsibility. (Kulaš Miroslavljević, Martić, & Novaković, 2023) Frederick Herzberg's research suggests that while hygiene factors can prevent dissatisfaction, it is the presence of motivators that leads to higher levels of job satisfaction and productivity. Stošić Mihajlović also concludes that intangible motivational factors do not cost much, but they can greatly contribute to increasing the quality of the economy, and for this reason, it is necessary to pay more attention to them. (Mihajlović Stošić, 2022)

On the other hand, according to Padma et al., the purpose of material compensation is to secure employee rights, provide a sense of justice, obtain qualified employees, retain employees, respect employees, control costs, comply with government regulations, and avoid conflicts. (Padma, Aisyah, Darmawan, Azmi, & Putra, 2018) There are many factors that are taken into consideration while awarding compensation to employees in an organization. Such various factors influence the type and amount of compensation that an organization provides to employees. The results of research by Anjanarko et al. also confirm that the role that shapes work productivity comes from the contribution of workload and compensation. The two independent variables have been proven to significantly form work productivity variables. (Anjanarko, Jahroni, Retnowati, Putra, & Arifin, 2022)

Harsono and Maradona also state in their research that it can be seen from the correlation coefficient obtained from 0.514, that there is a fairly strong level of relationship between material compensation and employee performance, and that the impact of compensation has a contribution to employee performance by 26.4%, while the remaining 73.6% is influenced by other factors that were not examined in this study. (Harsono & Maradona, 2021)

Material compensation as a reward from the employer to the worker for the work or service that has been and will be performed, serves as a guarantee of the adequate survival of humanity and production, expressed or valued in monetary form established according to the agreement, laws and regulations and is paid based on the employment contract between the employer and employee. Koespiadi, Darjanto and Kurniawan in their research *The Influence of the Number of Employees and Revenue on Employee Productivity during Covid-19 Pandemic in the Project of PT* conducted an employee satisfaction survey in order to better understand the needs and desires of their employees, how employees would feel more satisfied and in order to increase their productivity, they conclude that which show that the number of employees has a more dominant influence than revenue on employee satisfaction. (Koespiadi, Darjanto, & Kurniawan, 2021)

Now that the influence of motivation on the employee has been shown through the review of literature, we move on to the presentation of the influence of the same motivation on the company business.

In their work *Analytical study of quality of work life and organizational commitment and their relation with revenue per employee of major IT companies in India*, Yadav, Khanna and Panday analyzed the operations of 21 IT companies. In their research, they concluded that organizations that provide better quality of work life and provide better training to employees get efficient and effective results in the form of growth and profitability of the organization. The study proves that quality of work life and organizational commitment increase the financial performance of the organization

in terms of income per employee. (Yadav, Khanna, Panday, & Dasmohapatra, 2019) Also, in their work, The influence of the number of employees and revenue on employee productivity during Covid-19 pandemic in the project of PT Tunas Jaya Sanur Koespiadi, Darjanto and Kurniawan conclude that the main instrument of the company is human resources, and that people are the most important driving factor in the company's wheels. According to their research, there is a significant influence between the numbers of employees on the company's productivity. Therefore, at the same time, it was said that there is a significant simultaneous effect between the independent variables (number of employees and income) on the dependent variable (productivity of employees at PT). (Koespiadi, Darjanto, & Kurniawan, 2021)

In their work, Belak, Aljinović Barać and Tadić state that internal and external users of financial statements use ratio analysis as the main tool in decision-making processes. In their research, they state that a large number of financial ratios are based on an 'ideal' balance sheet structure. Therefore, growing companies with a large share of unrecorded intellectual capital call this type of analysis into question. (Belak, Aljinović Barać, & Tadić, 2009) The aim of the mentioned article was to provide empirical evidence on the impact of different ways of recognizing and measuring human capital expenditures in large high-tech companies on the analysis of financial statements as a measure of their success. The proven research hypothesis implies that in the high-tech industry, financial performance depends on investments in human capital, so companies that invest in human resources will achieve higher financial results. Consequently, the analysis of financial statements provided a truer and fairer representation of the company's performance if human capital expenditures were capitalized in the balance sheet instead of being recognized as expenses in the profit and loss account. (Belak, Aljinović Barać, & Tadić, 2009) The mentioned research can be connected with the research of the authors Tadić and Aljinović Barać, whose main goal was to determine the role of human capital investments and their impact on business excellence of the listed companies in Croatia as an example of a post-transition economy. (Tadić & Aljinović Barać)

In the paper, the authors state that all findings confirm the correlation between good company performance and high level of investment in human capital through salaries & bonuses and/or training & education costs. Both variables are positively correlated with company excellence. Results also confirm the difference in the mean of salaries per employee between HIIC and MIIC companies, as well as the difference in company business excellence when human capital expenditures are capitalized in the balance sheet rather than recognized as expenses in the P/L account. Summarizing the findings results in an important practical implication: Croatian companies should pay attention to managing human resources and realizing their importance and impact on competitive advantage, and moreover on business excellence. (Tadić & Aljinović Barać)

Following on from previous research, the importance of the research conducted by the authors Al-Delawi, Raewf and Jameel on 40 companies is manifested in terms of the recognition of human resources as a key factor in enhancing productivity and a source of sustainable competitive advantage and human capital as a source for building the company's assets that will lead to higher financial performance for the company, and the impact of these human resources and human capital on the company's financial performance and value. (Al-Delawi, Raewf, & Jameel)

According to the author, achievement of competitive advantage would not be possible without investing in the skills and knowledge of all employees. (Duspara, Požega, & Crnković, 2017) Importance of workforce has been recognized at the European level. The study “European vision on steel-related skills and supporting actions to solve the skills gap today and tomorrow in Europe” determines the current and future needs for skills in the steel industry and elaborates the causes of skills deficiencies and gaps thus emphasizing the importance of developing new skills for a globally competitive steel industry.

In a knowledge-based economy, human capital culture is considered an important source of long-term competitive advantage. Disclosure of human capital information is most likely to provide various benefits to organizations and institutions based on the expertise of the people and workforce in the company. (Al-Delawi, Raewf, & Jameel)

Companies should pay attention to the income they want to achieve, that is, approach employees in joint meetings to agree on achieving the desired income in order to have a common goal. Because indirectly the company's income will have an impact on the results or incentives that will be distributed to each employee. A lower income value will automatically lower employee opinion. This will affect the work productivity of these employees, and they should be included in decision-making so that they are familiar with the same.

## DATA AND METHODOLOGY

### Data

The company's analysis are carried out on the basis of data provided by the Financial Agency (FINA), the leading Croatian company in the field of providing financial and electronic services. The companies analyzed are located in Eastern Croatia, they are companies from five counties of Eastern Croatia, Brod - Posavina County, Osijek - Baranja County, Požega - Slavonian County, Virovitica - Podravina County and Vukovar - Srijem County.

**Table 1.** Structure of small, medium and large companies according to the counties in Eastern Croatia

Company size	Number of companies (cumulative)	Brod - Posavina County	Osijek - Baranja county	Požega - Slavonian County	Virovitica - Podravina County	Vukovar-Srijem County
Small companies	3742	728	1638	353	403	620
Medium companies	133	24	51	14	12	32
Large companies	38	3	21	4	2	8
<b>Σ</b>	3914	755	1710	371	417	660

**Source:** author's work, based on Financial agency (2017)

Small, medium and large companies are analyzed by size. For the research of large companies, the financial data of all large companies in Eastern Croatia, 38 of them, were used. As a sample of medium-sized companies, as well as large companies, the entire sample of all 133 companies that are registered and active in the Republic of Croatia and belong to the territory of Eastern Croatia were used.

There are 8,982 small businesses in Eastern Croatia, of which there are 1,639 in Brod-Posavina County, 4,208 in Osijek-Baranja County, the largest number of small businesses in that county, 693 small businesses in Požega-Slavonian County, 693 in Virovitica-Podravina County there are 887 of them, while there are 1562 small businesses in the Vukovar-Srijem County. From each county, the sample is proportional to the number of small businesses registered in that county, i.e. the sample is larger in counties with more businesses, and smaller in counties with fewer businesses. For the purposes of statistical processing, from the list of companies from each county, every other company was selected in alphabetical order as a sample. The sample includes only active companies; that is, instead of companies for which no data were provided or no longer active, the next company from the list for which data was recorded was selected. The research included an analysis of the state of 3,914 companies in Eastern Croatia.

## METHODOLOGY

For the purposes of hypothesis H1 the difference in parameters will be shown according to the size of the company and the years of follow-up.

To test the differences, the Kruskal Wallis test was used, which is a non-parametric analogue of the *F*-test as part of the analysis of variance. When conducting the Kruskal Wallis test, it is assumed that random and independent samples are chosen from *K* basic sets, or equivalently, it is a completely randomized experimental design, and that the basic sets are equally distributed; the third starting point is that the measurement values are on a rank, interval or numerical scale. It is assumed that all data taken as a whole (*n* of them) are ranked according to the corresponding samples. The smallest rank is 1, and the largest is *n*. If several equal values appear among the data, the average rank is added to each, in which case it is a matter of tied ranks. In the ranking process, the data in the samples do not change their position, that is, they remain in the same samples (groups).

The hypothesis contains the claim that the basic sets have equal medians, and the alternative contains the opposite claim

For the purposes of the test, two assumptions will be made:

H1.1: there are no differences between company size and parameters

H1.2: there are significant differences in company size and parameters

The significance level of the test was set at  $\alpha = 0,05$ . So, if the significance level of the test is less than 5% (a significance level of 5% is equal to 95% confidence), the assumption H1.1 will be rejected and the alternative assumption H1.2 will be accepted, i.e. there will be a significant difference between companies of different size and level of material compensation per employee and parameters related to the company's operations.

If the significance is greater than 5%, H1.2 will be rejected and H1.1 will be accepted, that is, no statistically significant difference between companies of different sizes and the level of material compensation per employee and parameters related to the company's operations will be proven.



## RESULTS

In this chapter, the variables used in the work and the methodology of their calculation are defined, after which the data collected for the purposes of the research are statistically processed and analysed. The research included an analysis of the state of 3,914 companies in Eastern Croatia. The research included 3,742 small companies, 133 medium and 38 large companies.

**Table 2.** Mean values of total income and expenses, net profit margin, return on equity and material compensation per employee according to company size in the period from 2013 to 2015

	Median (interquartile range)			P*
	Small-sized companies	Medium-sized companies	Large companies	
<b>Year 2013</b>				
Material compensation per employee	3.007 (2367-4000)	4.378 (3677,75-4913,75)	4.764,5 (3708,5-5749,5)	<b>&lt;0,001</b>
Total income	906.400 (283200-2983700)	71,241.350 (43031600-112385075)	345,997.450 (178119000-494197700)	<b>&lt;0,001</b>
Total expenses	816.000 (235225-2782900)	68,129.800 (42781225-109612350)	354,660.150 (176153800-490042425)	<b>&lt;0,001</b>
Net profit margin	1,33 (0,11-5,36)	1,29 (0,17-4,52)	1,19 (-3,49-4,97)	0,574
Return on equity capital	10,9 (0,7-60)	4,45 (0,3-22,58)	4,7 (0,4-27,4)	<b>0,001</b>
<b>Year 2014</b>				
Material compensation per employee	2949 (2388-3913)	4448 (3780-5038)	4599 (3875,5-5778,5)	<b>&lt;0,001</b>
Total income	860500 (242650-2733175)	75449000 (42818250-110214200)	370413600 (157998025-558559775)	<b>&lt;0,001</b>
Total expenses	822100 (235950-2606000)	74580200 (43200450-109305300)	343321200 (163182650-522000200)	<b>&lt;0,001</b>
Net profit margin	1,54 (0,13-6,3)	1,72 (0,27-4,29)	1,04 (-4,16-5,36)	0,775
Return on equity capital	13,9 (1-67,3)	6,3 (0,5-17,73)	4 (-7,45-18,05)	0,001
<b>Year 2015</b>				
Material compensation per employee	2958 (2363-3986)	4598 (3741,5-5166)	4865 (4098,5-5912)	<b>&lt;0,001</b>
Total income	885600 (251300-2723250)	80267000 (46993050-114679050)	332374050 (156054825-539499175)	<b>&lt;0,001</b>
Total expenses	849200 (248850-2580200)	78909400 (47298200-111745850)	324460700 (160797600-535167850)	<b>&lt;0,001</b>
Net profit margin	1,73 (0,15-6,27)	2,04 (0,33-4,94)	1,13 (-4,06 - 4,2)	0,387
Return on equity capital	12,2 (0,7-45,95)	6,25 (0,43-16,08)	3,5 (-2,35 - 19,7)	<b>0,001</b>

\*Kruskal Wallis test

Source: author's work

In 2013, the significantly lowest material compensation per employee of HRK 3,007 (interquartile range HRK 2,367 to HRK 4,000) was found in small companies compared to medium and large ones (Kruskal Wallis test,  $P < 0.001$ ), as well as the median total income of HRK 906,400 (interquartile range HRK range HRK 283,200 to HRK 2,983,700) compared to medium and large companies. Total expenditures are significantly higher in large companies with a median of HRK 354,660,150 (interquartile range from HRK 178,119,000 to HRK 494,197,700) (Kruskal Wallis test,  $P < 0.001$ ). There are no significant differences in the net profit margin according to the size of the company, while the return on equity is significantly lowest in large companies and significantly highest in small companies (Kruskal Wallis test,  $P < 0.001$ ).

Significantly the lowest material compensation per employee in 2014 of HRK 2,949 (interquartile range HRK 2,388 to HRK 3,913) has small companies compared to medium and large ones (Kruskal Wallis test,  $P < 0.001$ ), as well as the median total revenue of HRK 860,500 (interquartile range ranging from HRK 235,950 to HRK 2,606,000) compared to medium and large companies. Total expenditures are significantly higher in large companies with a median of HRK 343,321,200 (interquartile range from HRK 163,182,650 to HRK 522,000,200) (Kruskal Wallis test,  $P < 0.001$ ). There are no significant differences in the net profit margin according to company size, while the return on equity is significantly lowest in large companies, median 4 (interquartile range from -7.45 to 18.05), and significantly highest in small companies (Kruskal Wallis test,  $P < 0.001$ ).

In 2015, small companies had the significantly lowest material compensation per employee of HRK 2,958 (interquartile range HRK 2,363 to HRK 3,986) compared to medium and large ones (Kruskal Wallis test,  $P < 0.001$ ), as well as the median total revenue of HRK 885,600 (interquartile range ranging from HRK 251,300 to HRK 2,723,250) compared to medium and large companies. Total expenditures are significantly higher in large companies with a median of HRK 332,374,050 (interquartile range from HRK 156,054,825 to HRK 539,499,175) (Kruskal Wallis test,  $P < 0.001$ ). There are no significant differences in the net profit margin according to company size, while return on equity is significantly lowest in large companies, median 3.5 (interquartile range from -2.35 to 19.7), and significantly highest in small companies (Kruskal Wallis test,  $P < 0.001$ ) (Table 6.2).

As the significance of the difference in parameters between companies of different sizes is less than 0.05,  $H_{1.2}$  is accepted and  $H_{1.1}$  is rejected, i.e. there is a statistically significant difference between companies of different sizes and observed parameters.

It is still necessary to determine the connection between material compensation per employee and the parameters of the company's operations.

To test the hypothesis  $H_1$ : The amount of material compensation per employee has a significant positive impact on the company's operations, the Spearman correlation coefficient will be used to evaluate the correlation, which is a non-parametric equivalent to the Pearson correlation coefficient (product of rank correlation) to measure the correlation between the variables of average monthly net salary and salary per employee, total income, total expenses, net profit margin, return on equity).



It is based on measuring the consistency of the relationship between ordered variables, and the form of the relationship (eg. linear form, which is a prerequisite for using the Pearson coefficient) is not important.

Cases in which Spearman's coefficient is used are, for example, when there is no linear relationship between the variables, and it is not possible to apply the appropriate transformation that would translate the relationship into a linear one. As a result, the Spearman correlation coefficient gives an approximate value of the correlation coefficient, which is treated as its sufficiently good approximation. The calculation of the coefficient is done in such a way that the values of the assigned ranks are used. Spearman's coefficient will be denoted by Rho ( $\rho$ ). The basis of Spearman's rank correlation coefficient is pairs of rank-variable modality or numerical variables transformed into rank-variables. The modalities of each rank-variable are from the set of first  $n$  natural numbers. If in each pair the ranks are equal, their differences are equal to zero, and the coefficient takes the value 1, in this case we speak of a complete positive rank correlation. When the order of the modality of one rank-variable is reversed from the order of the other variable in the pair, the coefficient will take the value -1, so the assessment of the connection is complete and negative. If the significance level is 0.05, the decision is made by comparing the test size (sample rank correlation coefficient) with the critical value of the sampling distribution of the rank correlation coefficient for probability, that is, for the significance level and the sample size. The alternative hypothesis contains the opposite statement that there are tendencies that large values of one variable are paired with large values of another variable (positive association) or that large values of one variable are associated with small values of another variable (negative association).

Correlation coefficient values greater than 0.5 and less than -0.5 are said to be good, i.e. the closer the value is to 1 or -1, the connection is excellent.

For the purposes of the test, two assumptions will be made:

H1.1: there is no connection between material compensation per employee and the observed parameters,

H1.2: there is a connection between material compensation per employee and observed parameters,

In doing so, the significance level of the test is set  $\alpha = 0,05$ . So, if the significance level of the test is less than 5% (a significance level of 5% is equal to 95% confidence), the assumption H1.1 will be rejected and the alternative assumption H1.2 will be accepted, i.e. there will be a significant connection of material compensations employee and observed parameters. If the significance is greater than 5%, H1.2 will be rejected and H1.1 will be accepted, i.e. a statistically significant connection between material compensation per employee and the observed parameters will not be proven.

The correlation matrix of the connection between the average monthly net wage and salary per employee with the observed parameters shows that all parameters are statistically significantly related to the observed parameters. The highest level of connection with the average monthly net wage and salary per employee is shown by total income (Rho = 0.451) and total expenses (Rho = 0.446), while there are very weak connections (although significant) with net profit margin (Rho = 0.095) and return on equity (Rho = -0.082) where the relationship is negative (Table 6.3).

**Table 3.** Assessment of the relationship between material compensation per employee, total income and expenses, net profit margin and return on equity capital

Average monthly net wage and salary per employee	Spearman's correlation coefficient	
	Rho	P value
Total income	0,451	<0,001
Total expenses	0,446	<0,001
Net profit margin	0,095	<0,001
Return on equity capital	-0,082	<0,001

**Source:** author's work

The correlation matrix of the connection of the average monthly net salary and wages per employee with the observed parameters for all years shows that all parameters are statistically significantly related to the material compensation per employee.

Total income is most related in 2015 (Rho =0.485), total expenses, also in 2015 (Rho =0.477), net profit margin in 2015 (Rho = 0.122). There is a negative and weak significant relationship between material compensation per employee and return on equity in 2014 (Rho = -0.153), while in 2015 the relationship is not significant (Table 6.4).

**Table 4.** Assessment of the relationship between material compensation per employee, total income and expenses, net profit margin and return on equity capital by years

Average monthly net wage and salary per employee	Spearman's correlation coefficient	
	Rho	P value
<b>Year 2013</b>		
Total income	0,413	<0,001
Total expenses	0,405	<0,001
Net profit margin	0,093	<0,001
Return on equity capital	-0,080	<0,001
<b>Year 2014</b>		
Total income	0,448	<0,001
Total expenses	0,444	<0,001
Net profit margin	0,068	<0,001
Return on equity capital	-0,153	<0,001
<b>Year 2015</b>		
Total income	0,482	<0,001
Total expenses	0,477	<0,001
Net profit margin	0,122	<0,001
Return on equity capital	-0,017	0,288

**Source:** author's work

Spearman's correlation coefficient is used to assess the relationship between the average net salary and total expenses per employee with the observed parameters. A significant correlation (although less than 0.500) of average net salary or total expenses with most parameters was proven. As the correlation coefficient is (Rho)  $\rho > 0,500$ , and the significance is less than 0.05, the assumption H1.2 is accepted that there is a significant impact of material compensation per employee on total income and expenses, net profit margin and return on equity.

From the above, it is clear that the amount of material compensation per employee has a significant positive impact on the business of the company, which confirms hypothesis 1.

## CONCLUSION

Motivation gives individuals the impetus to set and achieve goals, whether they are personal, academic, or professional. As shown so far in the paper, motivated individuals are usually more productive and perform their tasks and responsibilities better. They demonstrate greater focus, persistence and effort, leading to higher levels of efficiency and effectiveness in achieving desired results. Also, motivation encourages individuals to seek new knowledge, skills and experiences in order to improve their personal and professional development. It fosters a desire for lifelong learning and growth, enabling individuals to adapt to changing circumstances and seize opportunities for advancement. As shown so far, motivation is necessary for effective leadership.

In short, motivation is essential for personal development, academic achievement, professional success, and general well-being. It encourages ambition, productivity, resilience and creativity, enabling individuals to pursue their goals, overcome obstacles and lead fulfilling lives. As such, understanding and fostering motivation are key components of individual and organizational success.

The empirical part of this paper is based on the analysis of the amount of material compensation per employee, total income, total expenses, net profit margin and return on equity in small, medium and large enterprises in the five observed counties.

To verify the hypothesis H1, the level of material compensation per employee has a significant positive impact on the company's operations, Spearman's correlation coefficient was used to assess the relationship, which is a non-parametric equivalent to the Pearson correlation coefficient (product of rank correlation) to measure the relationship between the variables of average monthly net salary and salary per employee, total income, total expenses, net profit margin, return on equity.

As previously stated, the results indicate an there are significant differences between the size of the company and the observed parameters (average monthly net wages and salaries per employee, total income, total expenses, net profit margin, return on equity).

The correlation matrix of the connection between the average monthly net salary and wages per employee with the observed parameters for all years shows that all parameters are statistically significantly related to the material compensation per employee.

Spearman's correlation coefficient is used to assess the relationship between the average net salary and total expenses per employee with the observed parameters. A significant correlation (although less than 0.500) of average net salary or total expenses

with most parameters was proven. As the correlation coefficient (Rho) $\rho > 0,500$  and the significance is less than 0.05, the assumption H1.2 is accepted and there is a significant impact of material compensation per employee on total revenues and expenses, net profit margin and return on equity.

Based on obtained results it was concluded that the amount of material compensation per employee has a significant positive impact on the business of the company, thus confirming the hypothesis and proving the importance of material compensation of employees.

A particular limitation of this research is the fact that it was conducted on a sample of companies operating in Eastern Croatia in five selected counties. It would be desirable to apply the same research methodology to a larger sample of companies operating in the European Union and to analyze and compare the obtained results. By applying the same methodology on a larger sample, it would be possible to more accurately investigate the connection between the amount of material compensation per employee and the company's operations. The presented research is based on data obtained by the Financial Agency, a leading Croatian company in the field of providing financial and electronic services that facilitates communication between business entities, the public administration and citizens, which can also be considered a limitation of this research. Also, the research was conducted on the available data from 2013, 2014, and 2015, and it would certainly be recommended to repeat the research using the same methodology with a delay in 2023, 2024, and 2025, in order to investigate and see the connection between the height of material compensation per employee on company operations.

## LITERATURE

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