




# A Hybrid Model of a Merit-Based Compensation System Based on Organizational Structure in the Banking Sector

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## Article Info

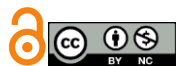
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## ABSTRACT

**Objective:** The aim of the present study was to examine a merit-based compensation system based on organizational structure within the banking sector.

**Methodology:** This research was conducted using a mixed-methods approach. Participants in the qualitative section included academic experts and banking industry specialists, selected through purposive sampling. After 24 semi-structured interviews, theoretical saturation was achieved. In the quantitative section, all employees working at branches of Bank Keshavarzi participated. Sample size calculations were conducted using the G\*Power software, and after accounting for response error, 386 responses were collected. Data analysis in the qualitative section employed open, axial, and selective coding methods within MAXQDA 2020 software. For the quantitative data, SPSS 26 and Smart PLS 3 software were used, and structural equation modeling was applied.

**Findings:** The qualitative findings, using a paradigmatic approach, indicated that 26 categories were classified into six groupings: causal conditions, central phenomenon, intervening conditions, contextual conditions, solutions, and outcomes. On the other hand, the analysis of the conceptual model in the quantitative section revealed a significant positive relationship between all main factors.

**Conclusion:** It can be concluded that focusing on each of the central and selective categories in the design of a merit-based compensation system based on organizational structure could result in positive outcomes for Bank Keshavarzi.

**Keywords:** Merit-Based Compensation, Banking Sector, Organizational Structure, Hybrid Model.

## 1 Introduction

The evolution of compensation systems has shown that, in the past, individuals engaged in business viewed compensation as a cost center. For many businesses,

compensation was regarded as a set of expenses, and cost management was considered another term for compensation. Over time, however, most organizations have recognized the importance of human resources and have started viewing compensation as a long-term investment, encompassing both

internal and external, financial and non-financial rewards offered in exchange for employees' services (Purwanto, 2020). Every organized entity, based on its missions, has long-term and short-term goals, and to achieve these goals, it must formulate, implement, and evaluate strategies. Undoubtedly, the merit-based strategic compensation system is not an exception to this rule, and managers can use the design of an appropriate compensation system to monitor and influence organizational behavior, increase individual and organizational productivity, and create motivation. Motivation ensures that employees apply all their skills and abilities to achieve the organization's goals (Azkiya et al., 2025).

In the current climate, the development of salary and wage policies is an integral part of strategic human resource management in the public sector and is considered a strategic and key area for organizations, providing the necessary foundation to attract job applicants, retain employees, and achieve the organization's strategic objectives (Abbaspour, 2018). Without a doubt, employees are the most valuable resource in organizations, and by aligning and effectively utilizing them alongside other organizational elements, organizational objectives can be realized. These resources possess potential capabilities that are actualized in the organizational environment, and achieving this goal requires a full understanding of individuals and the creation of favorable conditions for them to work and strive (Mostafapour et al., 2021). One area that should be studied in this regard is the proper placement of individuals based on their abilities, experience, and capabilities. This process is evaluated within the framework of a meritocratic system and can manifest through a compensation system (Giooki et al., 2019).

Schultz (1993) was the first to propose the Human Capital Theory (HCT), suggesting that investing in human development activities increases employee productivity. According to this theory, it can be argued that employee orientation, training and development, and succession planning can enhance employee productivity and contribute to the organization's achievement of its higher goals. Moreover, training and development and employee orientation reinforce the succession management system, subsequently improving employee performance (Ployhart, 2021). Ali and Mehreen (2019) studied succession planning as a leadership development tool and found that such planning could act as a double-edged sword, whereby proper and principled orientation leads to individual career development and minimizes employee turnover intentions

within organizations (Ali & Mehreen, 2019). Nonetheless, the literature indicates that succession planning is in its advanced stage, thus requiring further research to uncover the role of developmental factors in creating future leaders and their relationship with various career outcomes (Swales, 2020). In today's world, one of the most significant challenges organizations face is identifying the elements that motivate individuals to perform at their best (Mehreen & Ali, 2022).

A merit-based strategic compensation system must be built on components such as fairness and flexibility in payment, work environment conditions, job characteristics, the financial capability of the organization, ensuring basic livelihood, and enhancing employee satisfaction and motivation. An unjust and improper compensation system may cause employees to reduce their effort or seek employment elsewhere, or join another organization. Indeed, a well-designed compensation system, based on sound policies and principles, plays a crucial role in the economic health of an organization and the efficient and effective use of available human resources (Saadat, 2012). An examination of the performance of official institutions and the regulations governing the country indicates that the compensation system in Iran's public sector largely lacks the above characteristics and requirements (Maleki et al., 2021; Maleki et al., 2016).

Succession selection is often linked to an organization's need to respond to external environments. For this purpose, criteria such as work experience, professional skills, leadership style, and individual competencies are considered (Wilkes et al., 2015). Identifying high potential candidates without developing potential leaders is not feasible, and the development of employee potential is at the core of any meritocratic planning and management strategy (Burke et al., 2017). In pursuit of meritocracy, senior management participation and encouraging managers to actively involve employees in such processes is vital (Fadaye et al., 2019; Seniwoliba, 2015). However, most senior managers are often focused on advancing organizational goals and maintaining their positions within their workplaces, paying less attention to retirement or finding suitable successors (Cragun et al., 2016).

The Civil Service Management Law, as the primary law governing employee compensation, suffers from structural weaknesses. This, alongside the weakness in other surrounding systems, has led to many executive agencies being excluded from the scope of this law after more than 10 years of its implementation. As a result, this law has become

ineffective in the area of employee compensation within the public sector, and such a situation, along with a lack of transparency and oversight mechanisms, has facilitated unnecessary payments within the public sector (Maleki et al., 2021; Maleki et al., 2016). The banking system is one of the most crucial systems in the country's economic and monetary field, and this issue intensifies the need for efficient human capital within this system. This has made it impossible to apply the compensation regulations from other sectors to the banking industry. Therefore, the necessity to design a merit-based strategic compensation model within the banking sector based on an organizational structure, with a focus on administrative health, is a significant aspect of the present research.

In recent years, Iran's banking system, like other sectors, has undergone many changes, with new technologies leading to significant transformations in banking management and customer service. In many cases, this has altered the nature of employees' work, resulting in a very different form of banking today. For instance, the role of the internet in banks is undeniable, and it is used to enhance the quality of human resources information, human resources planning, development, recruitment, training, and compensation systems (Fatemi Ghomshe, 2019). Consequently, the compensation model, especially in banks, must be developed in accordance with the new conditions to enhance employee productivity and, ultimately, improve service delivery. Despite the domestic and international studies on merit-based strategic compensation, no research has yet designed a merit-based strategic compensation model based on organizational structure in the banking sector, which constitutes an innovative aspect of the present study. Moreover, the use of the banking sector and the study of administrative health among bank employees, alongside the use of two data collection methods (semi-structured interviews and questionnaires) to design the preliminary model and analyze the pathways between the variables within the model, are innovative aspects of the current research.

## 2 Methods and Materials

The present study is fundamental in nature and utilizes a mixed-methods approach (qualitative and quantitative) to explore the subject. Thus, in order to examine the dimensions and factors related to strategic merit-based compensation, the research literature and analysis of semi-structured interviews were used with a grounded theory

approach. Subsequently, to assess the fit and relationships between variables, structural equation modeling and the partial least squares approach were employed. This study is classified as applied research and aims to offer practical recommendations based on the findings obtained. Regarding the data collection method, this study is a survey-based study, collecting data cross-sectionally in alignment with the designed model.

The participants in the qualitative section included university professors and experts in the banking sector who had adequate knowledge of human resource laws and regulations, especially those related to compensation systems in banks. They were selected through purposive sampling. Ultimately, after 24 semi-structured interviews and reaching theoretical saturation, the process was halted, and the data were analyzed using open, axial, and selective coding methods. The quantitative population included all employees working at the branches of Bank Keshavarzi in Kerman province, with a total of 590 employees across 74 branches. To determine the sample size for structural equation modeling, Cohen's formula was used, which is a proper and scientific method for estimating the required sample size in statistical and structural models. The sample size was calculated to be 362 individuals using G\*Power software. Subsequently, considering the questionnaire distribution error, 10% more than the initial number was distributed among the target population. As a result, 386 valid responses were collected using a convenience sampling method.

The research process was carried out as follows: initially, secondary data from articles, books, domestic and international theses, news websites, official and unofficial statistics, and organizational documents were used to gather information regarding the research's nature and the concepts presented within it. Subsequently, interviews were used to investigate the issue in depth and identify its dimensions and components. In the quantitative section, the identified factors were transformed into a questionnaire, consisting of two parts: demographic questions and main questions. It is worth mentioning that for validating the qualitative tool, Lincoln and Guba's (1985) method was used. For assessing the validity of the questionnaire, both face and content validity and Cronbach's alpha coefficient were applied. Based on the results, the overall Cronbach's alpha was found to be greater than 0.70, confirming its reliability.

For analyzing the qualitative data, coding methods were employed with the help of MAXQDA 2020 software, which ultimately led to the design of the merit-based compensation

system model based on organizational structure in the banking sector. For analyzing the quantitative findings, SPSS 26 software was first used to present descriptive statistics and assess the reliability of the research tool. The output from this software was then saved in .sav format and imported into Smart PLS 3 for structural equation modeling using the partial least squares method. Thus, the conceptual model fit was assessed initially by relying on the results of the PLS algorithm, and then, the relationships between variables were analyzed using the bootstrap method.

### 3 Findings and Results

In the first part of the research, semi-structured interviews were analyzed. Initially, the primary codes extracted from the software were identified and examined as open codes. Then, after categorizing these codes, the main and sub-categories related to the topic were identified and presented in various sections. Finally, by merging the findings from the open and axial coding stages and considering the factors identified through the research literature, the initial model of a merit-based compensation system based on organizational structure in the banking sector was designed. To summarize the findings from the qualitative section, [Table 1](#) presents all the categories and concepts identified from the interviews.

**Table 1**

*Results of Semi-Structured Interview Analysis*

Sub-Categories	Concepts	Open Codes
Economic Conditions	Macro-Economic Status	Capital market status; Government's degree of involvement; Business environment conditions; Market efficiency; Gross Domestic Product (GDP); Household purchasing power; Current expenses; Housing cost payment ability; Inflation rate increase; Consumer product price increases; Exchange rate and gold price fluctuations; Number of employed and unemployed people; Education levels of employees and unemployed; Active population rate; Average household income; Socio-economic gap; Minimum living cost (poverty line); Housing conditions; Health insurance coverage.
	Cost of Living	
	Economic Fluctuations	
	Labor Market Conditions	
Social-Cultural Status	Economic Welfare	Population size; Age structure of the population; Gender distribution; Migration rate from rural to urban areas; Foreign nationals' population; Marital status; Educational level; Per capita reading; Valuing work; Media/computer literacy level; Climatic conditions; Development level of the region; Ratio of rural to urban population.
	Demographic Characteristics	
	General Culture of Society	
Laws and Regulations	Geographical Characteristics	Compensation and benefits system; Deprivation reduction policies; Pensioners' livelihood security; Work-life balance; Alignment of laws with people's living conditions; Involvement of experts in job planning; Analysis of employees' work-related issues; Anti-discrimination and social justice policies; Social security provision.
	Administrative System Policies	
	Employment Laws	
Individual Issues	Fundamental Laws	Law-abidance; Accountability for work duties; Adherence to organizational interests over personal resources; Piety and chastity; Fairness and justice in work; Honesty in task execution; Fear of God; Job responsibility; Commitment to professional ethics principles.
	Professional Ethics Principles	
	Commitment to Religious Values	
Human Resource Management	Responsibility	Clear standards in recruitment process; Established in-service training procedures; Integration of promotion and career development system; Performance monitoring and evaluation systems; Attention to economic and livelihood issues; Clear determination of salaries and bonuses; Viewing employees as business partners; Internal marketing strategies; Development of innovation culture.
	Establishing Job Standards	
	Supportive Laws	
Welfare Infrastructure	Monitoring Systems	Attention to employee housing; Creating suitable accommodation for employees; Providing housing allowances; Coordination with medical centers for healthcare services; Addressing supplementary insurance issues to reduce healthcare costs; Providing maternity allowances; Educational facilities for employees and their children; Special employee discounts at stores; Providing special cards for employee purchases.
	Guiding Employee Attitudes	
	Housing Facilities	
	Medical, Maternity, and Welfare Facilities	
	Educational Facilities for Employees and their Children	
	Store Discounts	

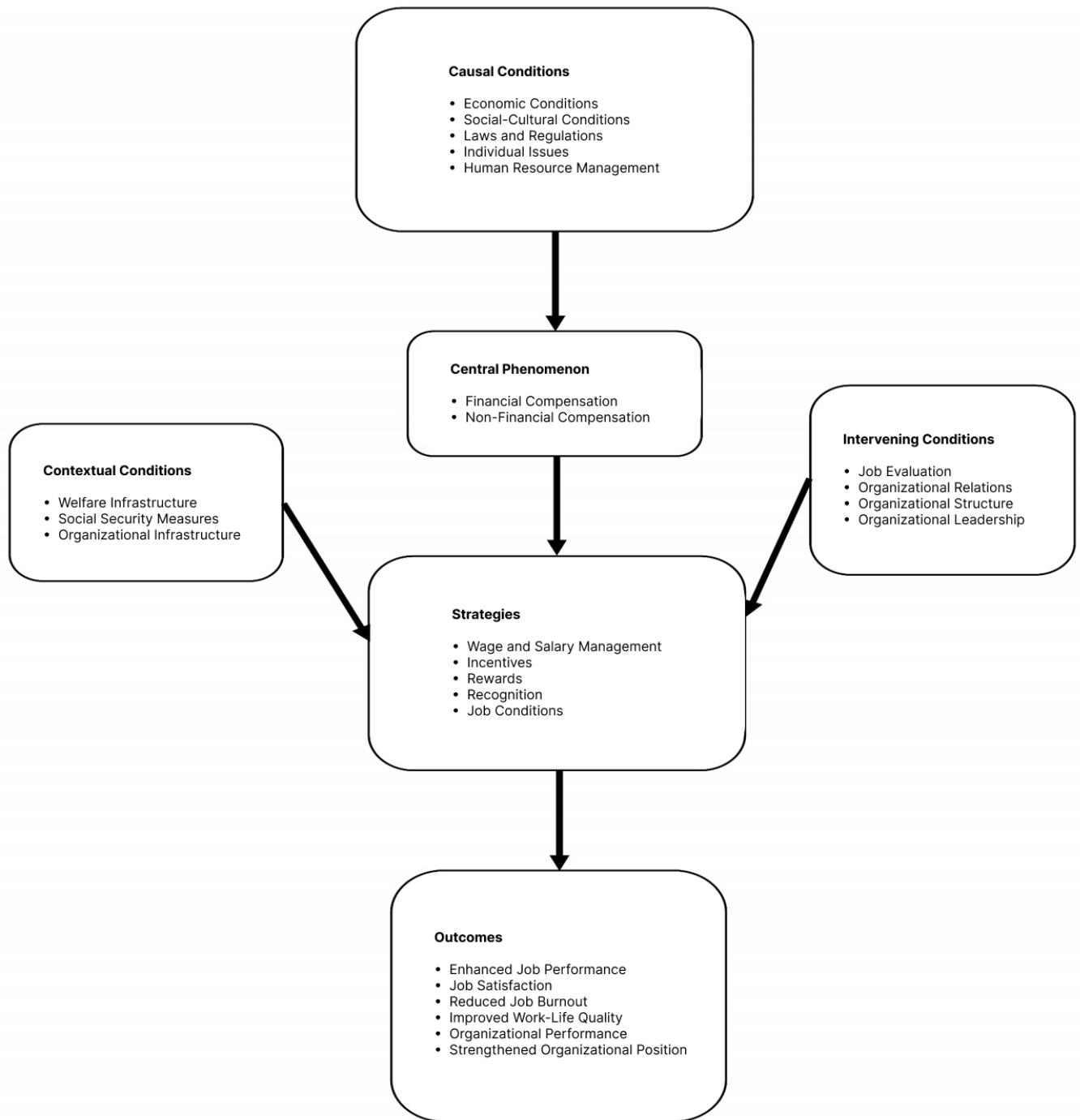
Social Security Measures	Insurance	Providing basic employee insurance; Coordination with various insurance companies for supplementary services; Providing incentives for maternity leave for female employees; Teleworking opportunities for female employees; Addressing work-related health issues for female employees; Providing free medical services at the workplace; Disability allowance group; Addressing the issues of employees with disabilities;
	Medical/Health Benefits	Providing counseling services for employees with mental-family issues; Supporting pension fund development; Timely pension payments; Addressing medical cost reimbursements for employees/pensioners.
	Disability and Impairment Benefits	
Organizational Infrastructure	Retirement Benefits	
	Creating Appropriate Organizational Conditions	Flexible organizational structure; Financial resources for employee development plans; Multiple communication channels within the organization; Developing short- and mid-term projects; Engaging managers interested in innovative plans; Developing standards for banking relations; Expanding banking infrastructure for customer services; Utilizing modern technologies in customer services.
	Employing Capable Managers	
Job Evaluation	Developing Infrastructure	
	Selecting Appropriate Evaluation Methods	Adopting appropriate evaluation methods for various bank jobs; Using modern evaluation strategies; Classifying jobs and defining career paths; Determining job priorities; Tailoring employee evaluation conditions to departmental activities; Determining the relative value of jobs based on their sensitivity;
	Job Classification	Establishing evaluation working groups; Surveying employees to improve evaluation systems; Using evaluation forms to identify weaknesses; Defining evaluation processes for each job.
Organizational Relations	Determining Relative Job Value	
	Formal and Informal Relations	Interactions among employees in the workplace; Consideration of demographic factors (experience, age, personality) in workplace relations; Communication with newcomers; Informal workplace relationships;
	Horizontal Relations	Clear communication plans among organizational groups; Reducing hierarchy to avoid gaps between managers and employees; Inter-organizational coordination among employees in different departments.
Organizational Structure	Vertical Relations	
	Complexity	Number of subsidiary activities/systems within the bank; Presence of specialized employees at different organizational levels; Number of hierarchical levels in the organization; Supervision of employee performance; Detailed depiction of organizational relations in organizational charts; Establishing standards for each job; Determining employees' autonomy in tasks; Decision-making centralization at higher levels.
	Formality	
Organizational Leadership	Centralization	
	Leadership Style	Adaptive leadership style; Developing teamwork skills; Empowering employees; Participatory leadership style; Cooperation spirit; Effective communication with employees; Internal organizational trust among staff, supervisors, and managers; Positive employee attitude towards leadership; Development of informal social relationships between leaders and members; Enhancing employee commitment/accountability.
	Improving Interpersonal Relations	
Compensation Management	Empathetic Cooperation	
	Flexibility in Wage Determination	Setting salaries based on time; Setting salaries based on service volume; Performance-based salaries; Competency-based salary setting; Experience-based salary setting; Skill-based salary setting; Executing salary programs based on work hours; Consistent salary management programs; Transparent salary rules; Periodic evaluation of wage programs; Reviewing wage program limitations; Holding meetings to determine wage priorities.
	Implementing Compensation Programs	
Incentives	Evaluating the Effectiveness of Compensation Programs	
	Leave and Sick Leave	Offering vacation opportunities with family; Providing travel allowances for vacations; Supporting overseas travel expenses for employees; Flexible sick leave policies; Employee welfare programs for illness;
	Maternity Leave	Maternity leave policies; Providing support for paternal leave; Offering incentives to promote childbirth;
Bonuses	Periodic Evaluation of Incentive Programs	Assessing the effectiveness of employee incentive activities; Surveying employees for their incentive preferences; Periodic review of incentive benefits.
	Recreational Facilities	Providing recreational activities for employees and their families; Cinema reservations for staff and families;
	Transportation Facilities	Providing water park reservations for staff and families; Car purchase allowances; Providing special transportation for workgroups; Paying wages in advance; Providing special facilities for employees with personal issues; Offering credit for purchasing household goods; Housing loan programs; Investment advisory for employees in development plans; Legal services for purchasing housing/vehicles; Legal assistance in contract creation.
Recognition	Credit Facilities	
	Legal Facilities	
	Organizational Identity	Strong organizational identity; Social value within the work environment; Recognizing individual employee identities; Positive language in manager-employee interactions; A clean, respectful workplace; Appropriate work-related colors based on employee preferences; Customizing work tools to employees' needs; Focusing on fixing work deficiencies; Respecting employee work preferences; Listening to employees' work-related
	Appearance Status	
	Respecting Employees' Needs	

Job Conditions	Delegating Responsibility	suggestions; Empowering employees to make decisions; Allowing employees freedom in task execution; Consulting employees on job-related decisions.
	Work Environment	Flexible workspaces; Teamwork policies; Noise levels and phone distractions; Task assignments based on behavioral capacities; Task assignments based on employee skills and experience; Flexible working hours; Creating job satisfaction; Providing safe work environments; Occupational health and safety measures.
	Job Tasks	
	Flexible Workspace	
Job Performance Improvement	Comfortable Work Conditions	
	Job Security	
	Enhancing Individual Skills and Knowledge	Strengthening individual knowledge and capabilities; Fostering personal development; Using creativity for improved service quality; Increasing employee responsibility; Focusing on organizational priorities.
	Improving Creativity and Innovation	
Job Satisfaction	Enhancing Work Quality	
	Strengthening Accountability	
	Enhancing Job Motivation	Increasing motivation for organizational participation; Improving motivation to align with organizational goals; Increasing individual motivation for job duties; Strengthening commitment to customer demands; Enhancing ethical responsibility to organizational priorities; Increasing affection for the workplace.
	Enhancing Employee Commitment	
Burnout Reduction	Boosting Organizational Loyalty	
	Enhancing Workplace Joy	
	Preventing Stress and Burnout	Providing personal and emotional support; Preventing excessive stress; Supporting employee mental well-being; Creating a relaxed work environment; Reducing pressure from work-related performance expectations; Encouraging balanced work and family time.
	Avoiding Work-Related Stress	
Sustainability	Supporting Mental Health	
	Supporting Employee Development	Ongoing skill development; Improving technical competencies; Supporting leadership development programs; Creating succession plans; Supporting higher education for employees; Funding employee professional development programs.
	Educational Support	
	Career Path Development	

Table 1 presents the main concepts, categories, and the identified open codes. The resulting data supports the construction of an integrated merit-based compensation

model, which aligns with the diverse factors influencing employee satisfaction, performance, and organizational structure in the banking sector.



**Figure 1***Paradigm Model of the Study*

After developing the conceptual model, a researcher-designed questionnaire was prepared based on the factors within the model. Subsequently, the results obtained from quantitative data collection were analyzed using structural equation modeling and the partial least squares (PLS) approach. To facilitate the software output, each dimension

of the above model was represented by an abbreviation: causal conditions (CaC), central phenomenon (Ph), intervening conditions (IC), contextual conditions (CoC), strategies (As), and outcomes (Re). Initially, goodness-of-fit tests and structural model assessments were conducted, with their outputs presented in the following:

**Table 2***Results of Factor Loading, Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE) Tests*

Main Factor	Dimensions	Factor Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Strategies	As1	0.733	0.816	0.880	0.676
	As2	0.725			
	As3	0.627			
	As4	0.764			
	As5	0.658			
Causal Conditions	CaC1	0.784	0.772	0.823	0.787
	CaC2	0.885			
	CaC3	0.795			
	CaC4	0.864			
	CaC5	0.694			
Contextual Conditions	CoC1	0.745	0.775	0.818	0.689
	CoC2	0.719			
	CoC3	0.899			
Intervening Conditions	IC1	0.725	0.851	0.864	0.684
	IC2	0.730			
	IC3	0.836			
	IC4	0.783			
Central Phenomenon	Ph	0.673	0.913	0.922	0.619
Outcomes	Re1	0.789	0.844	0.861	0.716
	Re2	0.751			
	Re3	0.803			
	Re4	0.796			
	Re5	0.690			
	Re6	0.819			

After examining the pretests related to the reliability of the designed conceptual model and confirming the values of factor loadings, Cronbach's alpha, composite reliability, and

average variance extracted (AVE) for all factors, the next step was to evaluate discriminant validity. The results are shown in [Table 3](#).

**Table 3***Discriminant Validity Results Using Fornell-Larcker Criterion*

Factor	Strategies	Causal Conditions	Contextual Conditions	Intervening Conditions	Central Phenomenon	Outcomes
Strategies	0.822					
Causal Conditions	0.639	0.936				
Contextual Conditions	0.297	0.345	0.830			
Intervening Conditions	0.684	0.782	0.382	0.827		
Central Phenomenon	0.635	0.654	0.440	0.539	0.846	
Outcomes	0.257	0.364	0.221	0.541	0.707	0.787

According to the results in [Table 3](#), all diagonal values (representing the square root of AVE) are greater than the values below and to the left, indicating that the discriminant validity of the research model is confirmed. Thus, the

goodness-of-fit of the research model, including reliability and validity assessments, was approved. Subsequently, the fit of the structural model was evaluated, and the results are briefly summarized in [Table 4](#).

**Table 4***Structural Model Fit Results*

Factor	R-Squared (R <sup>2</sup> )	Q <sup>2</sup> Value	Overall Model GoF
Strategies	0.781	0.380	0.742
Central Phenomenon	0.828	0.361	
Outcomes	0.766	0.407	

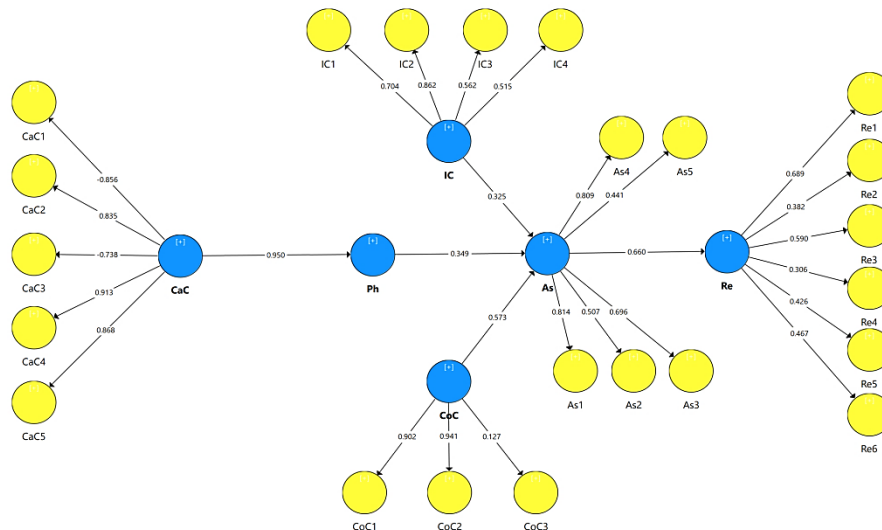


After validating the conceptual model in terms of both measurement and structural model fit, the final step involved path analysis of the conceptual model using significance coefficients and standardized coefficients. The results of this

analysis are displayed in the below figures, which illustrate the significant relationships between factors as well as the strength and direction of these relationships.

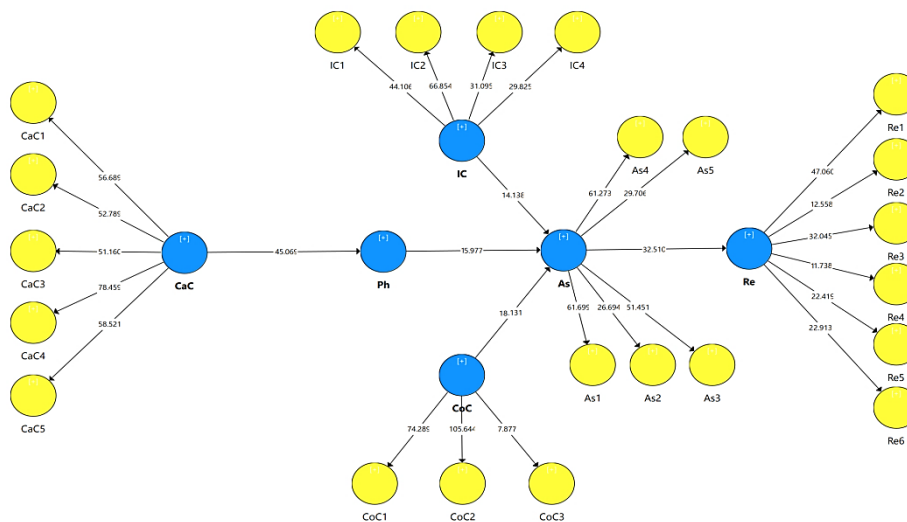
**Figure 2**

*Testing the Research Model Using Standardized Coefficients*



**Figure 3**

*Testing the Research Model Using Significance Coefficients*



#### 4 Discussion and Conclusion

The present study aimed to design and evaluate a merit-based compensation system model based on organizational structure in the banking sector using a mixed-methods approach. In the modern perspective of human resource management, employee compensation is no longer limited

to monetary salaries and wages but also includes the quality of work-life, encompassing indirect financial benefits and non-financial benefits. In this study, efforts were made to examine factors related to this subject through interviews. The coding of data obtained from semi-structured interviews revealed a total of 26 categories, organized into six groups: causal conditions, central phenomenon, intervening

conditions, contextual conditions, strategies, and outcomes. Subsequently, a researcher-designed questionnaire was used to examine the type and intensity of relationships between these factors. Using structural equation modeling and the partial least squares (PLS) approach, the path coefficients of these relationships were tested. Initially, the goodness-of-fit and structural fit of the model were evaluated and confirmed, and the path coefficients of the relationships and factors within the model were analyzed.

The results of the conceptual model analysis indicated a significant relationship between causal conditions and the central phenomenon, i.e., the merit-based compensation system. Among the subcategories of causal conditions, two factors—economic conditions and laws and regulations—had a negative impact, while other factors, such as socio-cultural conditions, individual issues, and human resource management, showed a positive and significant impact. This finding suggests that financial matters are one of the most critical components of the compensation system, as employees constantly face financial pressures and living expenses, which can act as motivating factors. Conversely, if organizational policies and labor laws at the national level fail to support the merit-based compensation system, they will undoubtedly negatively affect employees. These results align with the prior studies (Jeha et al., 2022; Omotehinse & De Tomi, 2020), which emphasized the importance of financial matters and wage laws.

Another noteworthy finding among causal conditions is the influence of cultural dynamics within society and socio-cultural norms, which act as non-financial dimensions shaping employees' perceptions of compensation systems. Furthermore, studies have shown that employees' perceptions of the implementation of the merit-based compensation system are often internal and dependent on individual characteristics and their interactions with human resource managers (Tang et al., 2020). These findings are consistent with the perspectives of Pan et al. (2022) and Putra (2022), who argued that non-financial factors, alongside financial factors, and in some cases even more than financial factors, play a significant role (Pan et al., 2022; Putra, 2022). Employees seek respect and recognition, and when organizational environments address such values, individuals are more likely to commit to their jobs, thereby increasing their motivation and enthusiasm for continued collaboration with the organization.

Regarding the relationship between intervening conditions and strategies for strengthening the compensation system, the results showed that organizational relations, job

evaluation, organizational structure, and organizational leadership had the most significant impact, respectively. As highlighted by Jeha et al. (2022), cohesive organizational relationships and a structure aligned with the compensation system can enhance organizational dynamism (Jeha et al., 2022). Job evaluation, alongside effective organizational leadership, is also considered essential for any compensation system, as it fosters internal organizational relations. In this regard, Buali (2023) stated that the current trend of performance evaluation in organizations has gone beyond traditional performance management to include assessing competencies, potential for growth, promotion, and advancement (Bobeica et al., 2021). The impact of organizational leadership was consistent with prior studies (Hidayati & Zulher, 2022).

In terms of contextual conditions, the findings highlighted the effectiveness of actions related to social security measures, welfare infrastructure, and organizational infrastructure. It appears that addressing employee healthcare and work history, alongside providing recreational facilities and enforcing workplace requirements, can collectively create an environment where motivated employees continue their activities. As Robbins and DeCenzo (1996) identified basic salary, welfare, and performance pay as key components of financial compensation, recent studies have similarly emphasized these factors in strengthening compensation systems to create a cohesive work environment in organizations (Robbins & DeCenzo, 1996). Notable examples include the studies of Sarwar and Abugre (2013) and Jackson and John-Denson (2021) (Jackson & Dunn-Jensen, 2021; Sarwar & Abugre, 2013).

The study's findings indicate that implementing strategies to enhance the compensation system, such as wage and salary management, incentives, rewards, recognition, and creating favorable job conditions, can significantly improve job performance and satisfaction, reduce job burnout, enhance work-life quality, improve organizational performance, and even strengthen the organization's position. These results align with both domestic and international studies (Ahadzadeh et al., 2021; Alidoust Ghahfarokhi et al., 2021; Andriani, 2023; Chalutz Ben-Gal et al., 2021; Kheiran et al., 2021; Tarigan et al., 2022) all of which emphasized the effectiveness of these strategies in improving organizational and individual activities.

Based on the findings, it appears that implementing a merit-based compensation system based on organizational structure in the banking sector requires attention to both

internal and external financial and non-financial issues. Specifically, adhering to matters related to wages and salaries, along with addressing employee insurance and welfare concerns, can comprehensively cover one of the most critical dimensions of the compensation system: the financial aspect. Additionally, focusing on internal psychological factors, such as organizational communication, leadership styles, leader-member exchange, performance evaluation processes, appreciation, identity-building for employees, and recognizing their contributions to service delivery, can significantly enhance employees' intrinsic satisfaction and reduce job burnout.

Given these findings, it is recommended that banking executives and senior managers, in their efforts to create a dynamic and harmonious work environment, not only strengthen the pillars of the merit-based compensation system but also address employee weaknesses and challenges. Since some strategies may yield different results depending on individual characteristics and the internal organizational environment, it is essential to tailor these strategies to specific contexts. Human resource managers should monitor feedback and identify the strengths and weaknesses of implemented plans to resolve issues and reinforce effective activities within the organization. Undoubtedly, gaining deeper insights into the various dimensions of the merit-based compensation system can enhance the understanding and oversight of senior leaders in different organizations. Therefore, it is suggested that future studies rank the identified factors and utilize other methods and tools to further investigate this area.

### Authors' Contributions

All authors have contributed significantly to the research process and the development of the manuscript.

### Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

### Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

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### Declaration of Interest

The authors report no conflict of interest.

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According to the authors, this article has no financial support.

### Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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