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DO HIGHER MATERIAL COMPENSATIONS LEAD TO HIGHER NET PROFIT PER EMPLOYEE?

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Abstract: This paper analyses the relationship between material compensation per employee and net profit per employee with the aim of testing the assumption that an increase in material compensation does not necessarily result in an increase in net profit. The analysis was conducted on 3914 companies of different sizes (small, medium and large) in several Croatian counties. Non-parametric statistical methods were applied, including the Kruskal–Wallis test, Mann–Whitney U test and Spearman correlation coefficient. The results show that there are significant differences in net profit per employee between companies of different sizes, with larger companies generally achieving higher net profit per employee. The relationship between material compensation and net profit was confirmed only in small companies, while no statistically significant relationship was found in medium and large companies. In conclusion, the hypothesis that an increase in material compensation per employee does not necessarily lead to an increase in net profit per employee is partially confirmed.

Keywords: employee, material compensation, profit

1. INTRODUCTION

In the modern business environment, material compensation per employee has become a key element of strategic human resource management and financial planning of companies. According to Milkovich and Newman (2008), properly structured compensation strategies can significantly improve employee engagement, reduce turnover and contribute to maintaining competitive advantage. However, the relationship between material compensation and the financial performance of a company, especially net profit per employee, is not unambiguous and depends on numerous factors. Recent research shows that the connection between compensation and organizational performance varies depending on the size of the company, the sector of operation and the cultural context. Al Marshoudi et al. (2023) point out that employee

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engagement mediates this relationship, while Surbakti (2025) and Dewi et al. (2024) emphasize the role of motivation and organizational commitment as key mediators. At the same time, Gomez-Mejia et al. (2014) warn that small and medium-sized enterprises have different needs compared to large enterprises when it comes to compensation strategies. This scientific paper hypothesizes that an increase in material compensation per employee does not necessarily increase net profit per employee. Through a detailed analysis of differences in net profit levels by company size, counties and years of follow-up, using the Kruskal-Wallis test, Mann-Whitney U test and Spearman's correlation coefficient, the complexity of this relationship is explored. The results of this research not only contribute to the understanding of the dynamics between compensation and profitability, but also provides practical insights for creating more effective compensation strategies that take into account the specificities of different company sizes and regional contexts.

2. LITERATURE REVIEW

Material compensation is a key aspect of human resource management, which not only affects employee motivation and satisfaction, but can also significantly impact a company's financial performance. According to Milkovich and Newman (2008), properly structured compensation strategies can improve employee engagement and reduce turnover, which is vital for maintaining competitive advantage. Research has shown that there is a significant relationship between compensation and organizational performance. For example, Al Marshoudi et al. (2023) point out that employee engagement mediates the relationship between compensation and organizational performance, suggesting that higher compensation can result in higher engagement and, consequently, better business results. This impact may be particularly pronounced in the service sector, where employee satisfaction is crucial for providing quality service. Tanjung et al. (2025) investigate how compensation in the banking sector of Pakistan affects employee motivation. Their findings suggest that adequate compensation directly increases motivation, which can result in improved net profit for the company. Organizational commitment may also mediate the relationship between compensation and employee performance. Dewi et al. (2024) suggest that when employees are satisfied with their compensation packages, their commitment to the organization increases, which can lead to better business results. Research, such as that of Gomez-Mejia et al. (2014), suggests that different sectors have different needs and challenges when it comes to compensation. In small and medium-sized enterprises, tailored compensation strategies can significantly impact business performance, while larger companies may need more complex and diverse approaches. Chen et al. (2022) also point out that compensation packages in the education sector have a significant impact on employee performance, further confirming the sector-specificity of these relationships. Following previous research and the research by Khudhair et al. (2020) show that compensation strategy leads to the increment of employee’s performance in Iraqi universities. This outcome indicated that there is a positive connection between the compensation strategy and the performance of the employee. Surbakti (2025) provide evidence from China on the impact of employee compensation on company performance, highlighting that cultural and economic context can significantly influence these relationships. Meyer and Allen (1997) provide a review of the literature on the role of pay in employee commitment, highlighting that the relationship between compensation and performance is complex and often conditioned by a number of external and internal factors. This complex relationship can make it difficult to draw direct conclusions about the impact of compensation on bottom line profits. Katabalo i Mwita (2024) analyze how compensation

affects employee well-being and performance, emphasizing that material compensation is not the only factor that determines business performance. Although many articles indicate a positive relationship between material compensation and business performance, it is important to note that the results vary depending on the specific context, sector and size of the company. This complexity indicates the need for further research that could better clarify how different factors influence the interaction between compensation and bottom line profits. It is particularly important to consider the differences between small, medium and large companies, as well as regional and sector specificities that may moderate these relationships. This theoretical framework provides a comprehensive overview of the current literature on the topic and can serve as a basis for further research or analysis.

3. DATA AND METHODOLOGY

The sample on which the research was conducted includes 3914 companies, of which 3742 small, 133 medium and 38 large economic entities in the area of Eastern Croatia, i.e. in the area of Osječko-baranjska, Brodsko-posavska, Vukovarsko-srijemska, Virovitičko-podravska i Požeško-slavonska counties. The research was conducted as part of the author's doctoral dissertation. This paper presents some of the previously unpublished results.

For the purposes of analyzing the impact of the growth of material compensation per employee on net profit per employee, we set the hypothesis

H1. An increase in material compensation per employee does not necessarily increase net profit per employee

To test hypothesis 1: the difference in the level of net profit per employee by counties, company size and years of monitoring, and in individual companies (small, medium and large) by monitoring period will be shown.

To test the differences, the Kruskal Wallis test will be used, which is a non-parametric analogue of the *F*-test within the analysis of variance.

When conducting the Kruskal Wallis test, it is assumed that random and independent samples are selected from K basic sets or, equivalently, it is a completely randomized experimental design, and that the basic sets are equally distributed; the third thing we assume 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 by the corresponding samples. The smallest rank is 1, and the largest n. If several equal values appear among the data, each is assigned an average rank, in which case we are talking about related ranks. In the ranking process, the data in the samples do not change position, that is, they remain in the same samples (groups).

Since the II. observed year in Virovitičko-podravska county is only one company, the difference between small and medium-sized enterprises was tested only. The testing was performed using the Mann Whitney U test. The Mann Whitney U test is in the group of non-parametric statistical tests. This test is used to determine the significance of the difference between the ranks of two observed groups. The basis for conducting this test are the values of an ordinal or numerical variable in independent samples originating from two basic sets.

The sample size from the first basic set is denoted by n1, and from the second basic set by n2, assuming that $n1 \leq n2$. If the samples are of different sizes, the first basic set is the one from which the smaller sample was selected. To obtain the test size T, the values from both samples are first combined, creating a new series of n1 + n2 members. Then, ranks are assigned to the values of the new series, the smallest having rank 1 and the largest having rank n1 + n2. If we have several equal values, each is assigned an average rank. The test size T is equal to the sum of the ranks assigned to the members of the sample from the first basic set in the common

series. Based on these data, it will be possible to determine whether the parameters differ according to the size of the company.

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

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

H1.1: there are no differences between the size of the company and net profit per employee,

H1.2: there are significant differences between the size of the company and net profit per employee.

In this case, the significance level of the test is set at $\alpha = 0.05$. Therefore, if the significance level of the test is less than 5% (a significance level of 5% is equal to a confidence level of 95%), 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 sizes and the level of material compensation per employee.

If the significance is greater than 5%, H1.2 will be rejected and H1.1 will be accepted, i.e. no statistically significant difference will be proven between companies of different sizes and the level of material compensation per employee.

4. RESULTS AND DISCUSSION

In small enterprises, the highest net profit per employee was in the III. observed year. year, the median was 4,302 kn (interquartile range from 267 kn to 19,043.0 kn), while in the II. observed year it was 3,926 kn (interquartile range from 267.0 kn to 17,220.0 kn), and in the I. observed year the median value of net profit per employee was 3,543 kn (interquartile range from 250.5 kn to 15,925 kn). There are no significant differences in net profit per employee in small enterprises according to the observed period.

Table 1. Net profit per employee by company size and years of monitoring (author's preparation)

	Median (interquartile range)					P *
Small enterprises	P*	Medium enterprises	P*	Large enterprises	P*	
3.543 (250,5 do 15.925)	0,080	7.767,5 (730,2 do 32.759,5)	0,290	9.141 (-21.537 do 31.349,5)	0,908	**0,020**
3.926 (267 do 17.220)		11.868 (1.162,5 do 39.505,5)		11.257 (-16.769,5 do 43.339,5)		**0,001**
4.302 (267 do 19.043)		14.041 (1.933,5 do 43.267)		5.970 (-16.620,5 do 54.297)		**<0,001**

*Kruskal Wallis test

In medium-sized enterprises, the highest material compensation per employee was in the III. observed year. year, the median was 14,041 kn (interquartile range from 1,933.5 kn to 43,267.0 kn) compared to the I. observed year when it amounted to 7,767.5 kn (interquartile range from 730.2 kn to 4,913.75 kn) or the II. observed year with the amount of 4,448 kn (interquartile range from 3,780 kn to 32,759.5 kn). There are no significant differences in net profit per employee in medium-sized enterprises according to the observed period.

Table 2. Net profit per employee by county, company size and years of monitoring (author's own)

Net profit per employee		Median (interquartile range)					P *
	Small enterprises	P*	Medium enterprises	P*	Large enterprises	P*	
Brodsko posavska county							
I. observed year	3.499,5 (483,5-14.459,5)	0,074	16.634,5 (1.577,25-42.182,5)	0,331	18.545 (-56.437-55.998)	0,733	0,154
II. observed year	4.307 (588,5-16.724,5)		8.137 (2283,25-45.019)		-27.270 (-104.781-44.916)		0,220
III. observed year.	5.252,5 (487,5-21.725,5)		16.493 (5469-76.229,25)		-41.187 (-66.919-54.637)		**0,006**
Osječko-baranjska county							
I. observed year	3.663 (211-18011)	0,733	3.668 (25-26.821)	0,803	9.524 (-31.652-31.349,5)	0,678	0,945
II. observed year	3.747,5 (159,5-18.503,5)		5.062 (-2.399-26.797)		13.395 (-5.786,5-50.165)		0,230
III. observed year.	4.137 (182,5-19.994,5)		6.884 (35-33.147)		8.536 (-1.442-55.913,5)		0,448
Požeško-slavonska county							
I. observed year	3.621,5 (584-17.893,25)	0,335	12.351 (1.602,5-33.867)	0,465	25844,5 (-22.738,75-55.179,75)	0,500	0,236
II. observed year	3.043 (80,25-11.529,25)		12.261 (5.784,25-40.263,5)		18.622,5 (-41130,5-49822,25)		**0,010**
III. observed year.	3.762 (227,5-12.794)		27.943,5 (7.859,25-5.8691,5)		4.705,5 (-204.988,5-18.121,5)		**0,002**
Virovitičko - podravska county							
I. observed year	3.426 (90,25-13.939,75)	0,399	16.109,5 (4.950-59.707,5)	0,581	459,0	0,368	**0,031**†
II. observed year	2963 (66,5-16.402,5)		24.396,5 (13.695,25-62.920)		314,0		**0,001**†
III. observed year.	4.138 (144-19.723)		19.923 (2.250,25-5.5813,25)		-18.006,0		0,056†
Vukovarsko - srijemska county							
I. observed year	3.253,5 (247,25-13.389,75)	0,050	9.013,5 (739,25-31.568,75)	0,697	2.845 (-18.490,25-22.068,25)	0,773	0,285
II. observed year	4.698 (480,5-17.427)		16.726 (-14480,5-52.157,75)		8.393,5 (-4.0737,25-36161,5)		0,508
III. observed year.	4.358 (282-17.851)		21.907 (1.386-73.774,5)		11.493,5 (-21.018-62.930,75)		0,061

*Kruskal Wallis test; †Mann Whitney U test (comparison of small and medium-sized enterprises, because only one large enterprise was included)

In large enterprises, the highest material compensation per employee was II. observed year median 11,257.0 kn (interquartile range -16,769.5 kn to 43,339.5 kn), then I. observed year 9,141 kn (interquartile range -21,537.0 kn to 31,349.5 kn), while the lowest III. observed year median 5,970.0 kn (interquartile range -16,620.5 to 54,297.0 kn). There are no significant differences in the change in net profit per employee over the years even in large companies. Comparing net profit per employee by company size, we can conclude that during the entire period from I. observed year to III. observed year. small companies had statistically significantly lower material compensation per employee compared to large companies (Kruskal Wallis test, P = 0.020 for the first observed year, P = 0.001 for the second observed year and P < 0.001 for the third observed year).

In Brodsko - posavska county, there are no significant differences in net profit per employee, in the period from the first observed year to the third observed year, within small, medium or large enterprises. The values of net profit per employee in small enterprises are lower in the first observed year, 3,499.5 kn (interquartile range from 483.5 to 14,459.5 kn) compared to 18,545 kn (interquartile range -56,437.0 kn to 55,998.0 kn) in large enterprises, while during the second observed year they had a higher median net profit of 4,307.0 kn (interquartile range 588.5 to 16,724.5 kn) compared to -27,270.0 kn (interquartile range -101,781.0 kn to 44,916.0 kn) in large enterprises, as well as in the third observed year. year with a net profit of 5,252.5 kn (interquartile range 487.5 kn to 21,725.5 kn) small companies have significantly higher net profit compared to large companies, and significantly lower net profit compared to medium-sized companies (Kruskal Wallis test, P = 0.006).

In Osiječko – baranjska county there are no significant differences in net profit per employee, in the period from I. observed year to III. observed year. year within small, medium or large companies. The values of net profit per employee are lower in small companies, I. observed year year 3,663.0 kn (interquartile range from 211.0 kn to 18,011.0 kn) compared to 9,524.0 kn (interquartile range -31,652 kn to 31,349.5 kn) in large companies, during II. observed year median 3,747.5 kn (interquartile range 159.5 to 18,503.5 kn) compared to 13,395.0 kn (interquartile range -5,786.5 kn to 50,165.0 kn) in large companies, and in III. observed year. year 4,137 kn (interquartile range 182.5 kn to 19,994.5 kn) compared to large companies. Differences exist but are not statistically significant.

In Požeško - slavonska county, there are no significant differences in average monthly net wages and salaries per employee, in the period from I. observed year to III. observed year. year within small, medium or large companies. The lowest values of material compensation per employee are significantly in small companies, II. observed year 3,043 kn (interquartile range from 80.5 to 11,529.5 kn) compared to 18,622.5 kn (interquartile range -41,130.5 kn to 49,822.5 kn) in large companies, during the II. observed year median 3,762.0 kn (interquartile range 227.5 kn to 12,794.0 kn) compared to 4,705.5 kn (interquartile range -204,988.5 kn to 18,121.5 kn) in large companies (Kruskal Wallis test, P = 0.010), and in the III. observed year. In 2011, the median material components per employee was 2,947 kn (interquartile range 2,277 kn to 3,925 kn) in small enterprises compared to 4,188 kn (interquartile range 3,545.7 kn to 4,380.2 kn) in large enterprises (Kruskal Wallis test, P = 0.002).

In Virovitičko - podravska county, there are no significant differences in average monthly net wages and salaries per employee, in the period from the first observed year to the third observed year. year within small, medium or large enterprises. Since we only have data on the net profit of large enterprises, the differences between small and medium enterprises will be compared. The values of net profit per employee in small enterprises are significantly lower, I. observed year 3,426.0 kn (interquartile range from 90.5 to 13,939.5 kn) compared to 16,109.5 kn (interquartile range from 4,950.0 kn to 59,707.5 kn) in medium-sized enterprises (Mann

Whitney U test, P = 0.031), and in II. observed year the median net profit per employee in small enterprises is 2,963 kn (interquartile range from 66.5 kn to 16,402.5 kn) in small enterprises compared to 24,396.5 kn (interquartile range from 13,695.5 kn to 62,920.0 kn) in medium-sized enterprises (Mann Whitney U test, P = 0.001).

In Vukovarsko – srijemska county, there are no significant differences in net profit per employee in the observed period.

Since the significance of the differences in net profit per employee between companies of different sizes is less than 0.05, H2.2 is accepted and H2.1 is rejected, i.e. there is a statistically significant difference between companies of different sizes and net profit per employee, i.e. larger companies have significantly higher net profit per employee. If we look at the counties, the significance of the differences is partial (significant differences exist during the first observed year in Virovitičko podravska county, during the second observed year in Požeško slavonska county and Virovitičko podravska county and during the third observed year in Brodsko posavska county, Požeško-slavonska county and Virovitičko-podravska county).
It is also necessary to establish that an increase in material compensation per employee does not necessarily increase net profit per employee.

To test hypothesis 1: An increase in material compensation per employee does not necessarily increase net profit per employee, Spearman's correlation coefficient, which is a non-parametric equivalent to Pearson's correlation coefficient, will be used to assess the relationship. orrelation (product rank correlation) for measuring the relationship between the variables of net profit per employee and material compensation per employee.

It is based on measuring the consistency of the relationship between ordered variables, and the form of the relationship (e.g. 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 an appropriate transformation that would convert the relationship into a linear one.

Spearman's correlation coefficient as a result gives an approximate value of the correlation coefficient, which is treated as its sufficiently good approximation.

The coefficient is calculated by using the values of the assigned ranks. Spearman's coefficient will be denoted by Rho (ρ). The basis of Spearman's rank correlation coefficient are pairs of modalities of rank variables or numerical variables transformed into rank variables. The modalities of each rank variable are from the set of the first n natural numbers. If the ranks in each pair are equal, their differences are equal to zero, and the coefficient takes on the value 1, in which case we speak of a complete positive rank correlation. When the order of the modalities of one rank variable is reversed from the order of the other variable in the pair, the coefficient will take on the value -1, so the association score is complete and in a negative direction. 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, i.e. for the significance level and sample size. The alternative hypothesis contains the opposite statement that there are tendencies for large values of one variable to be paired with large values of the other variable (positive association) or that large values of one variable are associated with small values of the other variable (negative association). Values of the correlation coefficient 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 excellent the association.
For the purposes of the test, two assumptions will be made:
H1.1: there is no relationship between material compensation per employee and net profit per employee,

H1.2: there is a relationship between material compensation per employee and net profit per employee.

The significance level of the test is set at $\alpha = 0.05$. Therefore, if the significance level of the test is less than 5% (a significance level of 5% is equal to a confidence level of 95%), assumption H1.1 will be rejected and the alternative assumption H1.2 will be accepted, i.e. there will be a significant relationship between material compensation per employee and net profit per employee. If the significance is greater than 5%, H1.2 will be rejected and H1.1 will be accepted, i.e. no statistically significant relationship will be proven between material compensation per employee and net profit per employee.

Table 3. Assessment of the relationship between material compensation per employee and net profit per employee (author's own work)

	Spearman's correlation coefficient	
	Rho	P value
Small enterprises	0,234	**<0,001**
Medium enterprises	0,065	0,194
Large enterprises	0,087	0,363

In small companies, there is a significant correlation between material compensation per employee and net profit per employee, i.e., as net profit increases, material compensation per employee also increases, and vice versa (Spearman correlation coefficient, Rho = 0.234 P < 0.001). In medium-sized and large companies, the correlation is weak and not significant.

Table 4. Assessment of the correlation between material compensation per employee and net profit per employee by company size and monitoring period (author's own work)

	Spearman's correlation coefficient	
	Rho	Rho
Small enterprises		
I. observed year	0,237	**<0,001**
II. observed year	0,205	**<0,001**
III. observed year.	0,258	**<0,001**
Medium enterprises		
I. observed year	0,008	0,928
II. observed year	0,032	0,713
III. observed year.	0,150	0,085
Large enterprises		
I. observed year	-0,029	0,865
II. observed year	-0,017	0,921
III. observed year.	0,296	0,075

In small enterprises, there is a significant positive correlation between material compensation per employee and net profit per employee throughout all three years of monitoring (Spearman's correlation coefficient for the first observed year Rho = 0.237, for the second observed year Rho = 0.205; for the third observed year Rho = 0.258, P < 0.001). In medium-sized enterprises, the correlation is weak and positive, but without statistical significance, while in large enterprises the correlation is inversely proportional but without significance.

Table 5. Assessment of the correlation between material compensation per employee and net profit per employee by county, enterprise size and monitoring period in small enterprises (author's own work)

Small enterprises	Spearman's correlation coefficient	
	Rho	Rho
Brodsko-posavska county		
I. observed year	0,263	**<0,001**
II. observed year	0,243	**<0,001**
III. observed year.	0,264	**<0,001**
Osječko-baranjska county		
I. observed year	0,232	**<0,001**
II. observed year	0,213	**<0,001**
III. observed year.	0,264	**<0,001**
Požeško-slavonska county		
I. observed year	0,232	**<0,001**
II. observed year	0,153	**<0,001**
III. observed year.	0,296	**<0,001**
Virovitičko - podravska county		
I. observed year	0,262	**<0,001**
II. observed year	0,234	**<0,001**
III. observed year.	0,270	**<0,001**
Vukovarsko - srijemska county		
I. observed year	0,204	**<0,001**
II. observed year	0,151	**<0,001**
III. observed year.	0,210	**<0,001**

In the case of small enterprises, the best significant correlation between net profit and material compensation per employee was observed during the III. observed year in all counties, in Brodsko - posavska county (Spearman's correlation coefficient Rho = 0.264 P < 0.001), in Osijčko baranjska, (Spearman's correlation coefficient Rho = 0.264 P < 0.001), in Požeško slavonska (Spearman's correlation coefficient Rho = 0.296 P < 0.001), in Virovitičko podravska county (Spearman's correlation coefficient Rho = 0.270 P < 0.001), and in Vukovarsko srijemska county (Spearman's correlation coefficient Rho = 0.210 P < 0.001).

Table 6. Assessment of the relationship between material compensation per employee and net profit per employee by county, company size and monitoring period in medium-sized companies (author's own work)

Medium enterprises	Spearmanov koeficijent korelacije	
	Rho	P vrijednost
Brodsko posavska county		
I. observed year	-0,241	0,257
II. observed year	-0,031	0,886
III. observed year.	0,384	0,064
Osječko-baranjska county		
I. observed year	-0,050	0,725
II. observed year	-0,030	0,835
III. observed year.	0,240	0,090
Požeško-slavonska county		
I. observed year	0,412	0,162
II. observed year	0,200	0,493
III. observed year.	-0,200	0,493
Virovitičko - podravska county		
I. observed year	0,315	0,319
II. observed year	0,497	0,101
III. observed year.	0,189	0,557
Vukovarsko - srijemska county		
I. observed year	0,217	0,232
II. observed year	0,089	0,628
III. observed year.	0,085	0,645

Table 7. Assessment of the relationship between material compensation per employee and net profit per employee by county, company size and monitoring period for large companies (author's own work)

Large enterprises*	Spearman's correlation coefficient	
	Rho	Rho
Osječko-baranjska county		
I. observed year	-0,277	0,225
II. observed year	-0,154	0,505
III. observed year.	0,186	0,420
Vukovarsko - srijemska county		
I. observed year	0,476	0,233
II. observed year	0,238	0,570
III. observed year.	0,571	0,139

*For large companies in Brodsko posavska county, Požeško slavonska county and Virovitičko podravska county, correlation cannot be calculated due to too small a sample size

In the case of medium and large enterprises, there is no statistically significant correlation between net profit per employee and material compensation per employee, by county and monitoring period, i.e. if net profit increases, there is no increase in material compensation per employee, and vice versa, if net profit per employee decreases, material compensation per employee does not decrease. In the case of large enterprises, due to the small number of large enterprises in Brodsko posavska, Požeško slavonska county and Virovitičko podravska county, the correlation between net profit per employee and material compensation per employee could not be calculated. Spearman's correlation coefficient was used to assess the correlation between net profit per employee and material compensation per employee. A weak and insignificant correlation (less than 0.500) was demonstrated between net profit and material

compensation, except for small enterprises, where the correlation is weak (less than 0.500) but the significance is less than 0.05. Since the correlation coefficient for all companies (Rho) $\rho <$ 0.500 and the significance is less than 0.05 only for small companies, we accept the assumption H2.1 that there is no significant correlation between net profit and material compensation per employee, except for small companies. From all the above, it can be concluded that an increase in material compensation per employee does not necessarily increase net profit per employee (there is a correlation for small companies, but not for medium-sized and large companies), which partially confirms hypothesis H1.

5. CONCLUSION

The results of the conducted research confirm the complexity of the relationship between material compensation per employee and net profit per employee, which partially confirms the hypothesis H1. The analysis showed that in small companies there is a significant positive correlation between these variables (Spearman's correlation coefficient, Rho = 0.234, P < 0.001), which is in line with the findings of Tanjung et al. (2025) who emphasize the importance of adequate compensation for employee motivation. However, in medium-sized and large companies, such a correlation has not been proven, which confirms the conclusions of Meyer and Allen (1997) about the complexity of this relationship and its conditionality by numerous external and internal factors. These findings have significant implications for the theory and practice of human resource management. As Gomez-Mejia et al. (2014) pointed out, different sizes of companies require different compensation strategies. Small companies show a more pronounced sensitivity to changes in compensation, which suggests that an increase in material compensation in these companies may have a more direct impact on net profit. On the other hand, in medium and large companies, the relationship between compensation and profitability is mediated by a number of other factors, including organizational structure, sectoral specificities, and regional differences, as confirmed by research by Li and Zhang (2021) and Raaja and Johns (2021). Regional analyses show that there are significant differences in net profit per employee across counties and company sizes, indicating the importance of contextual factors in shaping compensation strategies. These results are consistent with the findings of Katabalo i Mwita (2024), who emphasize that material compensation is not the only factor determining business performance. Precisely the research of Amindrawati et al. (2024) emphasizes the role of management in enhancing employee motivation through non-financial rewards and fair compensation practices, which contribute to a productive work environment and optimal employee performance.

Limitations of this study include the relatively small sample of large companies in individual counties, which prevented a more detailed analysis in these segments. Future research should include a longer time period and a larger sample of companies to better understand the long-term effects of compensation strategies on net profit. It would also be useful to investigate additional mediating variables such as organizational culture, job satisfaction, and employee engagement, as suggested by Al Marshoudi et al. (2023). In conclusion, this study contributes to the existing literature by confirming that an increase in material compensation does not automatically guarantee an increase in net profit per employee, especially in the context of medium-sized and large companies. These findings highlight the need for a strategic approach to compensation that considers company size, sector specificities, and regional characteristics, which can achieve an optimal balance between employee satisfaction and company financial performance.

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