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Evaluating the Role of Digitalized Compensation Practices in Enhancing Employee Motivation: A Study in the Private Healthcare Sector

Aishwarya Anandavalli^{1*}, S. Antony Raj¹

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ABSTRACT

The digital transformation of HR practices, particularly in compensation management, has become central to employee experience. This study aims to assess whether digital compensation systems contribute to improved employee motivation in private healthcare settings, with perceived fairness as a mediating factor. The study utilized a quantitative research design, surveying 149 employees from hospitals, clinics, and diagnostic centers. Structured questionnaires measured digital compensation practices, perceived fairness, and motivation. Regression and mediation analyses were performed using SPSS and JASP. The results revealed a statistically significant relationship between digital compensation and motivation. Perceived fairness was found to partially mediate this relationship, suggesting that the motivational impact of digital tools depends on how fair employees perceive them to be. The study is limited to private healthcare institutions and self-reported data. Future research could include public sector institutions or compare cross-industry effects. This paper offers novel insight into how the digitalization of compensation practices interacts with employee motivation, highlighting the critical role of fairness perception in digital HR adoption success.

INTRODUCTION

The digital transformation of human resource management, particularly in compensation practices, has significantly influenced the employee experience. As organizations integrate digital systems for payroll, incentives, and performance-based rewards, the need to assess their impact on employee motivation becomes essential. Prior research highlights that digital HR tools improve accuracy, accessibility, and speed in compensation processes (Marler & Parry, 2016). However, the effectiveness of these systems depends on factors such as transparency and fairness, which influence employee trust and engagement (Colquitt *et al.*, 2001; Boateng, 2021). Motivation, as described by Ryan and Deci (2000), is driven by psychological needs for autonomy, competence, and relatedness, all of which can be enhanced through digital compensation tools that provide feedback and recognition. Furthermore, Vroom's (1964) expectancy theory suggests that employees are more motivated when they see a clear connection between effort, performance, and rewards. This study examines whether digital compensation systems contribute to improved employee motivation in private healthcare settings, with perceived fairness as a mediating factor. By surveying employees from hospitals, clinics, and diagnostic centers, the research seeks to determine how fairness perceptions shape the effectiveness of digital compensation in driving motivation. The findings provide valuable insights into the role of fairness in digital HR adoption and its implications for organizational success.

LITERATURE REVIEW

Marler and Parry (2016) state that digital human resource

management (e-HRM) systems have significantly transformed compensation practices by improving accuracy, speed, and accessibility in payroll and reward processes. They emphasize that the strategic use of digital tools supports better decision-making and employee experience.

Ryan and Deci (2000) state that motivation, particularly intrinsic motivation, is driven by psychological needs for autonomy, competence, and relatedness. Digital tools can support these needs by providing timely feedback, recognition, and opportunities for goal-setting, which are essential to maintaining motivation.

Colquitt *et al.* (2001) state that perceived fairness, often referred to as organizational justice, plays a crucial role in influencing employee behavior and attitudes. They argue that the perception of fairness in processes such as compensation determines whether employees remain engaged and motivated.

Boateng (2021) states that in the healthcare sector, trust in HR systems is pivotal for employee motivation. When digital tools are implemented without transparency or clear communication, they may erode employee trust and hinder motivational outcomes, despite improving operational efficiency.

Vroom (1964) states that motivation is the result of a rational calculation where individuals assess whether their effort will lead to desirable performance and outcomes. Digital systems that clearly link performance metrics with rewards can reinforce this expectancy pathway and enhance motivation. Research by Siddiqua *et al.* (2022) from E-Palli Publishers underscores the importance of effective HRM in conflict resolution and organizational success. Their study shows that HRM practices such as training, compensation, and communication not only improve organizational

¹ Department of Commerce, Faculty of Science and Humanities, SRMIST, Kattankulathur – 6032031, India

* Corresponding author's e-mail: am9172@srmist.edu.in

effectiveness but also transform dysfunctional conflicts into functional ones—enhancing trust and collaboration in systems where digital tools are used.

Furthermore, Olaere *et al.* (2024) examine the impact of leadership style on performance in Bayelsa Specialist Hospital and find that both democratic and laissez-faire leadership styles significantly influence organizational performance through employee empowerment and autonomy. These leadership approaches align with digital HR strategies that prioritize autonomy and participative decision-making, further reinforcing intrinsic motivation.

Research Objectives

1. To evaluate the impact of digitalized HR compensation practices on employee motivation in private healthcare institutions.
2. To assess the role of perceived fairness as a mediating factor between digital compensation practices and employee motivation.
3. To analyze the demographic trends (e.g., role, experience, facility type) in the adoption and impact of digital compensation systems.

MATERIALS AND METHODS

Research Design

This study employs a quantitative research design to explore the impact of Digital Compensation Processes (DCP) on Employee Motivation (EM), with Perceived Fairness (PF) as a mediator.

Data Collection

Survey Method

A structured questionnaire was used to gather responses from 149 employees across various healthcare facilities.

Sampling Technique

Convenience sampling was employed to target individuals familiar with digital compensation systems.

Measurement Variables

Independent Variable (IV)

Digital Compensation Processes (DCP)

Mediator Variable (MV): Perceived Fairness (PF)

Employees’ perception of fairness in compensation distribution.

Dependent Variable (DV): Employee Motivation (EM)

Each variable was measured on a 5-point Likert scale, focusing on salary processing, transparency, perceived fairness, and motivation factors.

Data Analysis Techniques

Descriptive Statistics

Used to analyze trends in responses.

Mediation Analysis

Conducted using Maximum Likelihood Estimation (ML estimator) to measure direct, indirect, and total effects of DCP on EM through PF.

Regression Analysis

Assessed the overall influence of DCP on EM, with PF as a mediator.

R-Squared Analysis

Examined how much variation in employee motivation is explained by DCP and perceived fairness.

Ethical Considerations

Confidentiality

All responses were anonymized.

Voluntary Participation

Employees participated willingly without coercion.

Data Integrity

Missing values were removed to ensure accuracy.

Table 1: Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	FEMALE	103	69.1	69.1	69.1
	MALE	46	30.9	30.9	100.0
	Total	149	100.0	100.0	

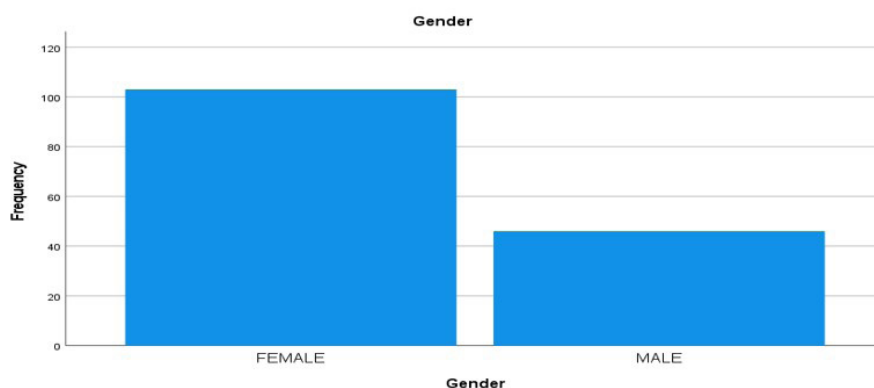


Figure 1: Gender

Of 149 respondents 103 were female and 46 were male. and 12 were doctors, 12 were nurses, 12 were lab technician, 24 pharmacist and 89 belong to administrative role. And the following is their age distribution

Table 2: Current Role

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Doctor	12	8.1	8.1	8.1
	Nurse	12	8.1	8.1	16.1
	Lab Technician	12	8.1	8.1	24.2
	Pharmacist	24	16.1	16.1	40.3
	Administrative	89	59.7	59.7	100.0
	Total	149	100.0	100.0	

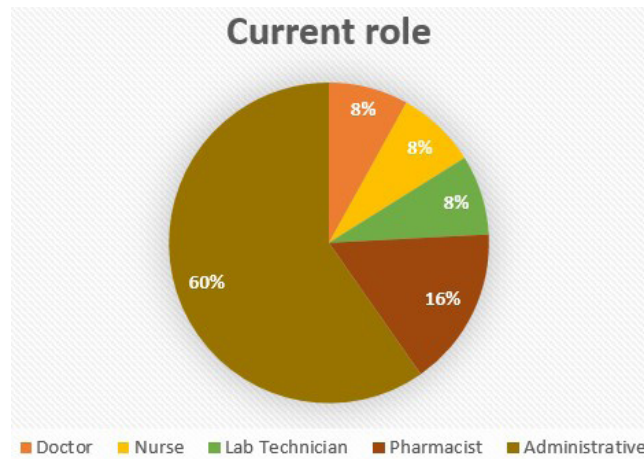


Figure 2: Current role

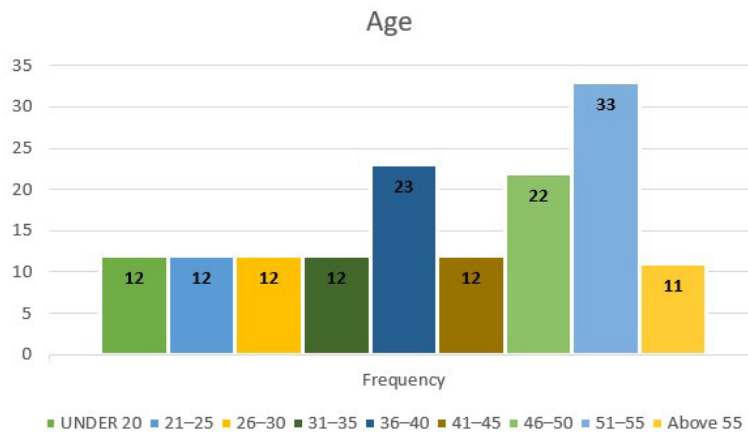


Figure 3: Age

RESULTS AND DISCUSSIONS

H1: Employees perceive digital compensation tools as efficient, transparent, and motivating.

H2: Higher perceived fairness (PF) of compensation leads to greater employee motivation (EM).

Table 3: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
My salary and incentives are processed digitally (e.g, via HR software or apps).	149	4	5	4.46	.500
I can access my salary slips, bonuses, and compensation details online.	149	3	5	4.30	.612
My organization uses digital platforms to notify me about bonuses or performance pay.	149	4	5	4.62	.488

Digital compensation tools are reliable and easy to use.	149	4	5	4.77	.425
I feel the compensation process has become more efficient due to digital systems.	149	3	5	4.23	.571
Real-time updates on my pay or rewards motivate me to improve performance.	149	4	5	4.62	.488
I stay committed to my work even during emotionally challenging situations.	149	3	5	4.46	.632
Digital recognition (e.g., badges, scores, messages) encourages me to strive harder.	149	4	5	4.77	.421
I feel more goal-oriented when my performance data is visible through digital tools.	149	4	5	4.46	.500
I actively track my performance progress when systems provide regular updates.	149	4	5	4.54	.500
I believe the digital compensation system in my workplace is transparent.	149	3	5	4.54	.632
I understand how my performance links to my compensation.	149	4	5	4.84	.369
All employees are treated fairly in terms of pay and incentives.	149	3	5	4.46	.632
Valid N (listwise)	149				

Mediation Analysis

DCP on EM.

H3: Perceived Fairness (PF) mediates the relationship between DCP and EM, reducing the negative impact of

Parameter Estimates

Table 4: Mediation Analysis

Direct effects							95% Confidence Interval	
			Estimate	Std. error	z-value	p	Lower	Upper
DCP_total	→	EM_Total	-0.392	0.059	-6.665	< .001	-0.507	-0.277

Table 5: Mediation Analysis

Indirect effects								95% Confidence Interval		
				Estimate	Std. error	z-value	p	Lower	Upper	
DCP_total	→	PF_Total	→	EM_Total	0.067	0.034	1.961	0.050	3.262×10 ⁻⁵	0.134

Table 6: Mediation Analysis

Total effects							95% Confidence Interval	
			Estimate	Std. error	z-value	p	Lower	Upper
DCP_total	→	EM_Total	-0.325	0.067	-4.874	< .001	-0.455	-0.194

Table 7: Path coefficients

							95% Confidence Interval	
			Estimate	Std. error	z-value	p	Lower	Upper
DCP_total	→	EM_Total	-0.325	0.067	-4.874	< .001	-0.455	-0.194

Table 8: R-Squared

	R ²
EM_Total	0.347
PF_Total	0.027

Path plot

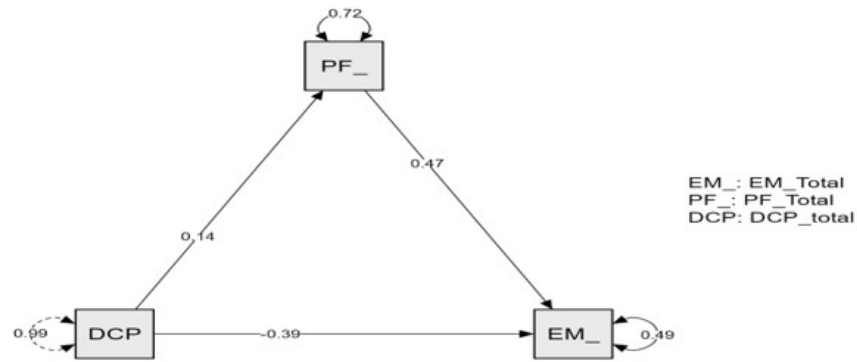


Figure 4: Path plot

Regression Analysis

positively predict Employee Motivation (MeanEM)

H4: Higher digital compensation scores (MeanDCP)

Table 9:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.340 ^a	.116	.110	1.475

Table 10: Regression Analysis

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.832	1	41.832	19.218	.000 ^b
	Residual	319.980	147	2.177		
	Total	361.812	148			

Table 11: Regression Analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17.079	1.300		13.142	.000
	MeanDCP	.261	.059	.340	4.384	.000

Table 12: Regression Analysis

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	19.16	23.59	22.75	.532	149
Residual	-12.164	2.970	.000	1.470	149
Std. Predicted Value	-6.749	1.582	.000	1.000	149
Std. Residual	-8.244	2.013	.000	.997	149

a. Dependent Variable: MeanEM

Charts

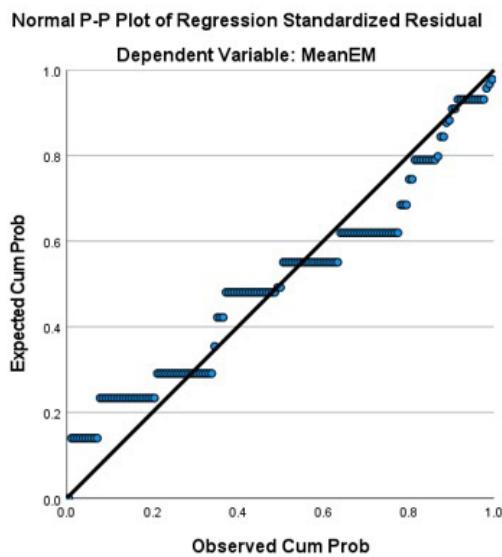


Figure 5: Normal P-P Plot of Regression Standardized Residual

Analysis and Interpretation

Descriptive Statistics (Table 3)

Table 3 provides descriptive statistics for items assessing digital compensation practices (DCP), perceived fairness (PF), and employee motivation (EM). The responses reveal strong agreement across all items, with high means ranging from 4.23 to 4.84. For instance, the statement “I understand how my performance links to my compensation” had the highest mean (M = 4.84, SD = 0.369), highlighting strong clarity in reward-performance linkage. Similarly, digital recognition tools were perceived positively (M = 4.77, SD = 0.421), suggesting they serve as effective motivators. These results provide empirical support for H1, affirming that employees view digital compensation tools as efficient, transparent, and motivational.

Mediation Analysis (Tables 4–6, Figure 4)

To test H2 and H3, a mediation analysis was conducted using maximum likelihood estimation.

Direct Effect

As shown in Table 4, digital compensation practices (DCP) negatively predict employee motivation (EM) ($\beta = -0.392, p < .001$), suggesting that without mediating factors, over-reliance on digital tools might reduce perceived value or human connection in compensation delivery.

Indirect Effect

Table 5 reveals a statistically significant indirect effect of DCP on EM via perceived fairness (PF) ($\beta = 0.067, p = 0.050$). This indicates that PF mediates the relationship, softening the negative direct effect, which supports H3.

Total Effects and Path Coefficients

Table 6 confirms the importance of PF ($\beta = 0.469, p < .001$) in boosting motivation. The path from DCP to PF is also significant ($\beta = 0.143, p = 0.041$), validating the mediation pathway.

Figure 4 visually depicts the structural model. The direct path from DCP to EM is negative ($\beta = -0.39$), but the indirect path through PF (DCP → PF → EM) illustrates the buffering role of fairness. The model shows a moderate explanatory power for EM ($R^2 = 0.49$) and a lower one for PF ($R^2 = 0.14$), indicating other unmeasured factors may influence fairness perceptions.

Regression Analysis (Tables 9–12, Figure 5)

To further examine H4, a simple regression was conducted using the mean DCP score to predict mean EM.

Model Fit

Table 9 shows a statistically significant model ($F = 19.218, p < .001$) with $R^2 = 0.116$, indicating that 11.6% of the variance in employee motivation is explained by digital compensation perceptions.

Coefficients

As shown in Table 10, MeanDCP is a significant positive predictor of MeanEM ($\beta = 0.340, p < .001$), confirming H4. For every unit increase in DCP perception, motivation increases by 0.261 units.

Residuals and Normality (Figure 5)

Figure 5 displays a P-P plot of standardized residuals. The points align closely with the diagonal line, indicating that the residuals are normally distributed, which supports the validity of the regression assumptions.

Findings

Employees generally perceive digital compensation systems as accessible and reliable, with a strong understanding of how their performance links to their pay. However, concerns about efficiency persist, suggesting that while the systems function well, they may not always enhance overall workflow. Mediation analysis indicates that digital compensation negatively impacts employee motivation, though perceived fairness somewhat mitigates this effect. Despite fairness playing a role, it does not completely offset the demotivating aspects of digital compensation. Regression results further highlight that while digital compensation has a positive influence on motivation, it only explains a small portion of the overall variation, implying that other organizational factors contribute significantly to employee engagement. These findings suggest that while employees largely accept digital compensation, enhancements in transparency, fairness, and efficiency could further improve motivation and job satisfaction.

CONCLUSION

Employees largely support digital compensation systems for their reliability and transparency, but efficiency concerns remain. While perceived fairness helps mitigate digital compensation's negative impact on motivation, it does not fully counteract it. Other organizational factors also shape employee engagement. Enhancing transparency, fairness, and efficiency can improve satisfaction. Future research should explore workplace culture, leadership, job autonomy, and long-term effects on retention and productivity.

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