



The Relevance of McClelland's Motivation Theory in Understanding Compensation and Employee Outcomes

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Abstract. This study aims to re-examine McClelland's motivation theory in the contemporary organizational context by investigating the dominant factors influencing employee performance. While McClelland emphasized the need for achievement as the most critical driver of work motivation, the findings from this research conducted at PT Tomo Food Industri indicate otherwise. The results show that direct, indirect, and non-financial compensation all have a significant positive impact on work motivation, with indirect compensation emerging as the most influential factor. Furthermore, work motivation significantly enhances employee performance and acts as an effective mediator between all forms of compensation and performance outcomes. The research employed a quantitative approach using a saturated sample of 95 employees. Data were collected through Likert-scale questionnaires (1–5) and analyzed using validity and reliability testing, ordinal-to-interval transformation via the Method of Successive Interval (MSI), and coefficient of determination. Statistical data processing applied Structural Equation Modelling (SEM) and path analysis with SmartPLS 4. The findings contribute to the theoretical discourse by challenging McClelland's proposition and highlighting compensation, particularly indirect benefits, as a pivotal determinant of motivation and performance in today's organizational setting.

Keywords: McClelland's Theory, Compensation, Work Motivation, Employee Performance, SEM-PLS.

1 Introduction

The food and beverage industry recorded a growth rate of 6.15%, surpassing the national economic growth of 5.12% in the second quarter of 2025. One of the main drivers of this growth is the expansion of the foodservice market (including restaurants, delivery services, catering, and cloud kitchens), which is projected to grow at a CAGR of approximately 13% between 2025 and 2030. Other contributing factors include lifestyle changes among consumers who prefer convenience and speed, technological advancements, and digitalization, such as the increasing use of marketplaces and food delivery platforms. The positive impact of this phenomenon lies in the increasing opportunities for micro, small, and medium enterprises (MSMEs). Through product innovation and

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internationally standardized quality, MSMEs can contribute to meeting export demand and gaining access to international markets.

Currently, the food and beverage industry, including MSMEs, has absorbed a significant workforce. One of the rapidly growing medium-sized enterprises is PT Tomo Food Industri, a member of the Amanda Group, which specializes in bread production. PT Tomo employs a considerable number of workers to support its operations. However, the company faces challenges in sustaining productivity, quality, and competitiveness. Consequently, one of the key success factors for the company is its ability to motivate human resources to achieve high performance.

Human resources are invaluable assets for any organization. Workers in the food industry are required to maintain strict discipline, accuracy, and compliance with food safety standards. Nevertheless, high workloads, repetitive tasks, and rotating shift systems can negatively affect employee performance. Employee motivation, therefore, becomes a critical concern for companies, as it drives high performance [1], [2], [3]. Understanding employee needs is crucial so that companies can implement appropriate strategies to encourage optimal performance. Previous research has highlighted compensation systems as one of the key factors influencing motivation [4], [5]. Research on work motivation in the food manufacturing sector remains limited in recent years [6]. McClelland's Theory of Needs is considered relevant for understanding the drivers behind an individual's achievement motivation.

Prior studies have examined differences in motivational factors between lower-level employees and those at higher levels. Research on operator-level employees found that compensation in the form of time off was the most significant factor [7]. However, studies that have applied McClelland's theory to examine motivational factors influencing employee performance show varied results [8]. Understanding the different implications of McClelland's theory for employees at lower and higher levels is essential to prevent managerial errors in developing human resource strategies. Knowing the extent to which compensation is important in motivating performance can guide managers in formulating effective compensation policies [9]. Previous studies often combined all types of compensation without distinguishing between direct, indirect, and non-financial forms. This study seeks to clarify the relevance of McClelland's theory within the current industry context, particularly for lower-level employees, by examining the influence of direct, indirect, and non-financial compensation on work motivation and its subsequent impact on employee performance.

2 Literature Review

2.1 Work Motivation and Employee Performance

Work motivation theories are generally classified into process theories and content theories [10], [11]. Process theories emphasize the mechanisms through which motivation occurs, while content theories focus on the internal factors that drive individual behavior. Examples of content theories include Maslow's hierarchy of needs, Alderfer's ERG theory, Herzberg's two-factor theory, and McClelland's theory of needs [3]. McClel-

land's theory is based on the idea that human needs can be categorized into achievement, power, and affiliation. Among these, McClelland emphasized higher-order needs, particularly the need for achievement, which is why the theory is often referred to as the achievement motivation theory [12]. According to McClelland, high performance is produced by employees who take greater responsibility, seek challenges in their work, and strive to solve job-related problems.

In extending the theoretical foundation, McClelland's theory can be meaningfully compared with several classical motivation models. Whereas Maslow's hierarchy of needs assumes a progressive fulfillment of innate human desires, McClelland's framework emphasizes that achievement, power, and affiliation are learned motives shaped by experience and culture. Herzberg's Two-Factor Theory, on the other hand, distinguishes between hygiene factors and motivators, often categorizing compensation as a hygiene element that prevents dissatisfaction rather than generating motivation. The present study challenges this boundary, indicating that indirect and non-financial compensation may operate as true motivators by satisfying employees' psychological needs for recognition and belonging. Complementarily, Vroom's Expectancy Theory and Adams Equity Theory underscore the cognitive dimensions of fairness and perceived reward value. Integrating these perspectives provides a richer interpretive lens for understanding how compensation mechanisms simultaneously address intrinsic and extrinsic motivational forces across diverse organizational settings.

Several studies have demonstrated that work motivation plays an important role in driving employee performance [13]; [8]. However, merely meeting employees' needs is not sufficient. [14] elaborating on Victor Vroom's expectancy theory, stated that employee motivation is determined by the relationship between effort, performance, and expected outcomes. Employees will be motivated if they believe that effort leads to performance, performance is rewarded, and the reward holds value consistent with their expectations. Adams further asserted that employees' perceptions of fairness in compensation strongly influence motivation. When employees perceive inequity in compensation compared to their peers, motivation tends to decline. Based on this discussion, the following hypothesis can be formulated:

- There is an effect of work motivation on employee performance.

2.2 Direct Compensation and Work Motivation

[11] emphasized that when employees feel their organization values their contributions and cares about their well-being (e.g., through compensation), they become more motivated to perform better. Compensation is generally divided into financial (direct and indirect) and non-financial forms [4]. While direct financial compensation can motivate employees, research indicates that its effects may be short-term [6]. Moreover, [15] argued that "a transparent and fair incentive system significantly enhances employees' extrinsic motivation and their willingness to exert effort." This is consistent with [16] who found that horizontal pay dispersion (differences in pay among employees) moderates the effectiveness of performance-based compensation systems. Nevertheless, it remains crucial to provide diverse direct compensation, such as base salaries, performance-based incentives, and bonuses, since they significantly impact work motivation

[17]; [18]. This finding aligns with studies by [13] and [5]. [7] further discovered that salary, bonuses, health allowances, and housing allowances strongly influence work motivation. Based on this explanation, the following hypothesis is proposed:

- There is an effect of direct compensation on work motivation.

2.3 Indirect Compensation and Work Motivation

Indirect compensation includes health benefits, retirement plans, facilities, transportation, and insurance. [19] demonstrated that indirect compensation significantly enhances job satisfaction and productivity. Additional evidence shows that benefits and facilities reduce employees' mental burdens, thereby improving focus at work. [17] emphasized that "indirect compensation such as health and retirement benefits is a strong determinant of employee satisfaction and motivation." These forms of compensation are closely linked to McClelland's nAff and nPow needs, as financial security and social status are critical motivators. The food industry, being labor-intensive, requires strong teamwork and reliability. [20] highlighted that "indirect financial rewards are often more effective in labor-intensive industries where job security and welfare are highly valued by employees." Consequently, indirect compensation such as health benefits may serve as a dominant motivational factor for employees ([1]. Based on this discussion, the following hypothesis can be formulated:

- There is an effect of indirect compensation on work motivation.

2.4 Non-Financial Compensation and Work Motivation

Non-financial compensation includes rewards, career opportunities, training, and work environment. [21] showed that non-financial rewards and managerial support significantly contribute to employee motivation and performance. Similarly, [22] confirmed the importance of non-financial compensation in strengthening employee loyalty and motivation. Their findings demonstrated that appreciation, work-life balance, job security, managerial behavior, and working hours significantly influence work motivation [6]. [7] also listed several non-financial compensation components such as flexible work arrangements, summer hours, birthday leave, occasional provision of meals or snacks, financial well-being support, and discounts on essential goods, all of which were shown to positively affect employee motivation.

[23] emphasized that the effects of non-financial compensation vary depending on cultural context and job type. Non-financial recognition such as praise, self-development opportunities, and a supportive work environment enhances intrinsic motivation. [24] noted that when rewards acknowledge competence without controlling behavior, intrinsic motivation is maintained or even enhanced. In the context of nAff, interpersonal recognition strengthens employees' sense of being valued and fosters loyalty. Furthermore, [24] argued that non-financial benefits, such as recognition, fulfill psychological needs that boost employees' self-confidence, ultimately leading to higher and more sustainable performance. Based on this explanation, the following hypothesis can be formulated:

- There is an effect of non-financial compensation on work motivation.

3 Methods

This study involves five variables: direct compensation with two indicators (salary and incentives); indirect compensation with two indicators (work insurance and facility allowances); non-financial compensation with four indicators (training access, work environment, work-life balance policy, and recognition/appreciation); work motivation with three indicators (need for achievement, need for power, and need for affiliation); and employee performance with six indicators (work quality, work quantity, punctuality, effectiveness, independence, and work commitment).

The respondents were drawn from the entire employee population of PT Tomo Food Industry, totaling 95 individuals. Among them, 45% were aged between 21 and 30 years with a work tenure of 6–10 years. Most respondents held diploma and bachelor's degrees. Data were collected using a Likert-scale questionnaire (1–5). Once collected, the data were analyzed using Structural Equation Modeling (SEM) and path analysis with the assistance of SmartPLS 4 software.

4 Results

4.1 Outer Model (Measurement Model)

One of the critical criteria in research is the validity test, which determines whether research findings meet established standards. Convergent validity is a statistical metric used to assess construct validity. Convergent validity is achieved when the outer loading value is > 0.7 , indicating that the variable explains 50% or more of its indicator variance. Reliability testing can be conducted through composite reliability. A variable is considered reliable when the composite reliability value is ≥ 0.7 and Cronbach's alpha exceeds 0.7.

Beyond convergent validity, construct validity was also examined to ensure that each latent variable accurately represented the theoretical construct it was intended to measure. Construct validity in this study was established through both convergent and discriminant validity analyses. Convergent validity was confirmed as all indicator loadings exceeded 0.70 and Average Variance Extracted (AVE) values were greater than 0.50 for every construct.

Discriminant validity was further evaluated using the Fornell–Larcker criterion and cross-loading assessments. The results indicated that the square roots of the AVE values for each construct were higher than their inter-construct correlations, demonstrating that each latent variable was empirically distinct. These findings collectively confirm that the measurement model meets the requirements of construct validity, providing confidence that subsequent structural analyses are based on theoretically sound measurement dimensions.

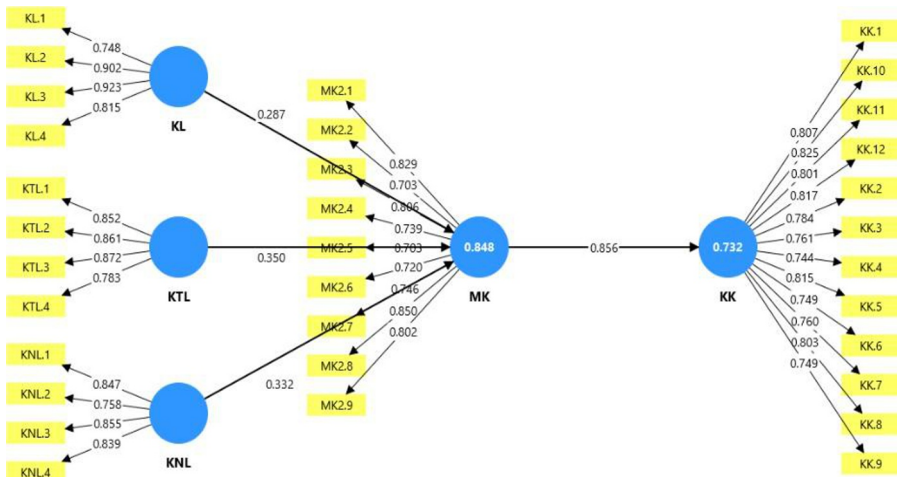


Fig. 1. Outer loading convergent validity.

As shown in Figure 1, all research items have met the criteria for the validity test, indicated by outer loading values greater than 0.7.

Table 1. Outer loading.

Variable	Indicators	Outer Loading	
Direct compensation	KL.1	0,748	Valid
	KL.2	0,902	Valid
	KL.3	0,923	Valid
	KL.4	0,815	Valid
Indirect compensation	KTL.1	0,825	Valid
	KTL.2	0,861	Valid
	KTL.3	0,872	Valid
	KTL.4	0,783	Valid
Non financial compensation	KNL.1	0,847	Valid
	KNL.2	0,758	Valid
	KNL.3	0,855	Valid
	KNL.4	0,839	Valid
Motivation	MK2.1	0,829	Valid
	MK2.2	0,703	Valid
	MK2.3	0,806	Valid
	MK2.4	0,739	Valid
	MK2.5	0,703	Valid
	MK2.6	0,720	Valid
	MK2.7	0,746	Valid
	MK2.8	0,850	Valid
	MK2.9	0,802	Valid

Variable	Indicators	Outer Loading	
	MK2.9	0,802	Valid
	KK.1	0,807	Valid
	KK.2	0,784	Valid
	KK.3	0,761	Valid
	KK.4	0,744	Valid
	KK.5	0,815	Valid
	KK.6	0,749	Valid
	KK.7	0,760	Valid
	KK.8	0,803	Valid
	KK.9	0,749	Valid
	KK.10	0,825	Valid
	KK.11	0,801	Valid
	KK.12	0,817	Valid

Based on Table 2 above, the outer loading values for each indicator are considered valid, since the outer loading values are greater than 0.7.

Table 2. AVE Values

Variable	AVE
Direct compensation	0,722
Indirect compensation	0,710
Non financial compensation	0,682
Motivation	0,590
Performance	0,616

Based on Table 3, the Average Variance Extracted (AVE) values for each variable indicate that all variables can be considered valid, as the AVE values exceed 0.5.

Table 3. Cronbach's alpha and composite reliability

Variable	Cronbach's Alpha	Composite Reliability
Direct compensation	0,869	0,878
Indirect compensation	0,864	0,871
Non-Financial compensation	0,844	0,845
Motivation	0,914	0,927
Performance	0,943	0,944

Table 4 shows that all variables have Cronbach's alpha and composite reliability values greater than 0.7. Therefore, it can be concluded that the indicators provide consistent results and each variable can be considered reliable.

4.2 Hypothesis

Direct Effect

The path coefficient values obtained from the bootstrapping results are presented in Table 4. Based on the table, the direct effect of the direct compensation variable on work motivation shows a p-value of $0.010 < 0.05$. This indicates that direct compensation has a significant effect on work motivation.

Table 4. Path coefficient.

Variable Sample	Original Sample	Sample Mean	Standard Deviation	T- Statistics	P- Values
Direct Comp -> Motivation	0,287	0,262	0,111	2,585	0,010
Indirect comp -> Motivation	0,350	0,382	0,164	2,134	0,033
Non financial com -> Motivation	0,332	0,324	0,135	2,449	0,014
Motivation -> Performance	0,856	0,862	0,028	30,424	0,000

The direct effect of the indirect compensation variable on work motivation shows a p-value of $0.033 < 0.05$, indicating that indirect compensation significantly affects work motivation. Similarly, the direct effect of the non-financial compensation variable on work motivation shows a p-value of $0.014 < 0.05$, which means that non-financial compensation has a significant effect on work motivation. Furthermore, the direct effect of the work motivation variable on employee performance shows a p-value of $0.000 < 0.05$, confirming that work motivation significantly influences employee performance.

Indirect Effect

The indirect effect of direct compensation on employee performance shows a p-value of $(0.011) > 0.05$. Furthermore, work motivation mediates the indirect effect of indirect compensation on employee performance with a p-value of $(0.031) > 0.05$. Work motivation also mediates the indirect effect of non-financial compensation on employee performance with a p-value of $(0.017) > 0.05$.

Table 5. Specific indirect effect

Variable	Original Sample	Sample Mean	Standard Deviation	T- Statistics	P- Values
Direct comp -> Motivation ->Performance	0,245	0,227	0,097	2,532	0,011
Indirect comp -> Motivation -> Performance	0,299	0,328	0,139	2,159	0,031
Non financial comp - > Motivation -> Performance	0,284	0,281	0,119	2,384	0,017

5 Conclusion and Discussion

The results of this study generally show that compensation, whether direct financial, indirect financial, or non-financial, has an effect on performance through work motivation. Work motivation is proven to be influenced by compensation. Among the three types of compensation, indirect financial compensation has the strongest influence on work motivation.

These findings are consistent with [25] and [26] who found that financial compensation has a stronger effect on employee motivation, although their studies did not specifically distinguish between direct and indirect financial compensation. This study provides a more specific picture for companies to pay attention to financial compensation, particularly indirect compensation [16]. In line with [19] this study also confirms that indirect financial compensation plays an important role in increasing satisfaction and productivity because it ensures long-term welfare.

In the context of PT. Tomo Food Industry, which operates in the food sector, most workers hold diplomas or bachelor's degrees, with higher demands for health benefits, insurance, and meal facilities. The characteristics of respondents also contributed to the findings of this study. Most respondents belong to the millennial and Gen Z cohorts. According to [8] there are significant differences in the needs of Generation X, Millennials, and Gen Z compared to Baby Boomers. For Generations X, Millennials, and Z, the motivational drivers are primarily the needs for affiliation and achievement. In this study, the second most influential factor after indirect financial compensation was non-financial compensation. Recognition of achievement, a supportive environment, and flexible working hours were important motivational factors to be considered by managers [10]. From a strategic human resource management standpoint, these findings can be translated into several concrete initiatives that extend beyond theoretical recommendations. A comprehensive compensation framework should be redesigned to balance direct, indirect, and non-financial elements within a single, transparent structure. For instance, direct financial rewards such as performance-based incentives can be complemented with indirect benefits health insurance, subsidized meals, and transport facilities that respond to employees welfare expectations. At the same time, continuous non-financial recognition through structured feedback sessions or monthly appreciation programs can maintain engagement without incurring high costs. Furthermore, embedding motivational indicators into performance appraisals enables management to evaluate not only task output but also behavioral commitment and achievement orientation. Managers are therefore urged to implement a total rewards roadmap that connects material benefits with opportunities for growth and recognition, ensuring that motivation translates into measurable performance outcomes.

Nevertheless, managers must be cautious in designing compensation systems. Referring to [24], shown that diverse forms of compensation do not necessarily guarantee an increase in work motivation. Companies should consider employees on a personal level to ensure that compensation is provided appropriately and effectively enhances motivation. In ensuring the sustainability of employee motivation, compensation systems must be designed with a long-term orientation. Short-term financial incentives often generate immediate behavioral responses but tend to lose their motivating power

once the novelty fades. To maintain motivation across career stages, organizations need to periodically adjust their compensation mix. Direct compensation should be reviewed regularly to remain competitive, while indirect benefits such as family health protection or retirement contributions should increase with tenure to reinforce loyalty. Equally vital are non-financial rewards, including access to training, internal mobility, and flexible scheduling, which foster a sense of professional growth and autonomy. When structured as a life-cycle rewards model, these mechanisms enable organizations to sustain employees' intrinsic and extrinsic motivation well beyond short-term performance targets. [19], through studies across the USA, Canada, the UK, Malaysia, Indonesia, Europe, Nigeria, Japan, China, Pakistan, and Saudi Arabia, emphasized that in addition to addressing employees' needs, ethical and legal aspects of compensation must also be taken into account. This means that companies should consider the overall compensation system. Besides direct and indirect financial compensation, a soft approach through non-financial compensation is required to sustain long-term growth.

McClelland's theory remains relevant in assessing factors that enhance employee performance. However, for lower-level employees, affiliation needs tend to be more dominant. Still, both internal organizational dynamics and external business environments continue to evolve over time. It is important to note that different ideas should not be placed in opposition, as business success often results from combining or modifying multiple approaches [10]. Companies in the food industry must therefore prioritize designing welfare programs tailored to employees' needs in order to create a productive and sustainable work environment. Both financial and non-financial compensation are complementary in driving employee performance.

6 Limitations and Directions for Future Research

This study was conducted using responses from employees of PT. Tomo Food Industry. Organizational performance levels and compensation practices may differ across sectors and industries. Therefore, further research is needed in larger industries, either within the same or different sectors, to better measure organizational performance influenced by different types of compensation.

In addition, the current study only examined the effect of compensation on motivation and job performance. Future researchers are encouraged to consider other independent variables based on McClelland's achievement motivation theory, such as the need for power or organizational environmental factors, to provide a more comprehensive understanding of the determinants of employee performance.

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