

Analysis of the Influence of Competency Development and Compensation Systems on Employee Performance: A Literature Study of Strategic Human Resource Management

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Received : 27 Juni 2025, Revised : 3 Juli 2025, Published : 8 Juli 2025

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Abstract

This research analyzes the influence of competency development and compensation systems on employee performance through literature review approach within strategic human resource management perspective. Library research methodology was employed to synthesize findings from various scientific publications during 2020-2025 period. Analysis results demonstrate that competency development operates through cognitive, psychomotor, and affective dimensions forming employees' holistic capabilities. Compensation systems integrate financial and non-financial components within total reward framework influencing motivational dynamics. The interrelation between both variables creates synergistic effects strengthening performance outcomes through reinforcement mechanisms. Strategic implications indicate that systematic integration between competency development and compensation alignment generates sustainable competitive advantages. This research contributes to theoretical framework development in strategic HRM and provides insights for practitioners in optimizing human capital investments.

Keywords - competency development, compensation system, employee performance

Abstrak

Penelitian ini menganalisis pengaruh pengembangan kompetensi dan sistem kompensasi terhadap kinerja karyawan melalui pendekatan tinjauan pustaka dalam perspektif manajemen sumber daya manusia strategis. Metodologi penelitian pustaka digunakan untuk mensintesis temuan dari berbagai publikasi ilmiah selama periode 2020-2025. Hasil analisis menunjukkan bahwa pengembangan kompetensi beroperasi melalui dimensi kognitif, psikomotorik, dan afektif yang membentuk kapabilitas holistik karyawan. Sistem kompensasi mengintegrasikan komponen finansial dan nonfinansial dalam kerangka total reward yang memengaruhi dinamika motivasi. Keterkaitan antara kedua variabel menciptakan efek sinergis yang memperkuat hasil kinerja melalui mekanisme penguatan. Implikasi strategis menunjukkan bahwa integrasi sistematis antara pengembangan kompetensi dan penyesuaian kompensasi menghasilkan keunggulan kompetitif yang berkelanjutan. Penelitian ini berkontribusi pada pengembangan kerangka teoritis dalam manajemen sumber daya manusia strategis dan memberikan wawasan bagi praktisi dalam mengoptimalkan investasi modal manusia.

Kata kunci - pengembangan kompetensi, sistem kompensasi, kinerja karyawan

How To Cite : Putra, P. S., Laila, D. A., Hariyati, H., & Aima, H. (2025). Analysis of the Influence of Competency Development and Compensation Systems on Employee Performance: A Literature Study of Strategic Human Resource Management. *Jurnal Penelitian Multidisiplin Bangsa*, 2(2), 276-285. <https://doi.org/10.59837/jpnmb.v2i2.482>

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INTRODUCTION

In an era of globalization and increasingly rapid digital transformation, organizations face complex challenges in managing human resources to achieve sustainable competitive advantage (Shobirin & Erawati, 2022). Strategic human resource management (*Strategic Human Resource Management*) is the main key in optimizing employee potential through competency development and an effective compensation system. Employee performance (*employee performance*) as the main indicator of organizational success is greatly influenced by various internal factors, especially the development of competencies and the compensation system implemented by the company. Competency development is a systematic effort to improve the abilities, knowledge, and skills of employees in carrying out their duties and responsibilities.

Employee competencies are defined as a combination of knowledge (*Knowledge*), skills (*Skills*), and attitude (*Attitude*) that allows a person to carry out his duties and responsibilities well (Etik & Setiyono, 2021). Previous research has shown that competency development through various methods such as training, *Coaching*, *Mentoring*, and distance learning can reduce HR development costs while increasing employee productivity. In the context of public organizations, employee competency development is an important priority to encourage productivity and better work quality, where simultaneously competence and work discipline can explain up to 65% of employee performance variations (Khonsa & Palupi, 2023).

The importance of competency development is increasingly seen in today's digital era, where employees are required to have high digital competence and adaptability. Competency development not only impacts the improvement of individual performance, but also contributes to innovation in the workplace. Employees who are constantly learning and growing tend to have new perspectives and fresh ideas that can help companies face challenges in creative and adaptive ways (Surbakti & Writing, 2025). HR management in the era of digitalization requires the development of digital competencies and the implementation of technology-based systems to maximize employee work productivity. On the other hand, the compensation system plays a vital role in motivating and retaining high-quality employees. Employee compensation includes various elements such as salaries, benefits, bonuses, and other benefits provided to employees in exchange for their contributions to the organization. Fair and transparent compensation is important to improve employee satisfaction and productivity, as well as prevent *Turnover* and maintain organizational performance. An effective compensation system is cash payments (*Direct Compensation*) or indirectly in the form of benefits and incentives with the aim of motivating employees to improve their performance (Kristanti & Hariyanti, 2024).

Concept *A Worthy Payment* or outstanding salaries are increasingly relevant in modern compensation systems, where employees are rewarded based on their achievements in the workplace (Campbell et al., 2020). More efficient and effective use of human resources can be achieved through the provision of high compensation to outstanding employees, which will ultimately reduce the expense of unnecessary work (Hasan, 2023). Evaluation, communication, and *Benchmarking* It is indispensable in the compensation system to ensure optimal fairness and transparency. The relationship between competency development and compensation systems to employee performance has become a major focus in strategic human resource management research. However, there are still research gaps (*Research gap*) in understanding the mechanism of interaction between the two variables and their synergistic impact on employee performance. Some studies have shown that competency development and compensation systems have a partially significant influence, but the effects of interaction and moderation between variables still require further exploration.

In the context of Indonesian organizations, the implementation of talent management and the use of competency results are development priorities reflected in the National Medium-Term Development Plan (RPJMN) for 2020-2024, where the government issues regulations as guidelines for agencies in managing the talents of their employees. This shows the importance of research examining

the influence of competency development and compensation systems on employee performance in the local context of Indonesia. Literature *review* in this study is important to provide a comprehensive understanding of the latest developments in the field of strategic human resource management. Through a systematic analysis of the literature, this study is expected to identify existing important patterns, trends, and findings, as well as provide recommendations for future HR management research and practice. The importance of this research is also supported by the need for organizations to understand the right strategies in optimizing investment in competency development and compensation systems to achieve optimal employee performance.

Based on the background that has been described, this study formulates several main problems that need to be studied in depth. First, how does competency development affect employee performance based on the findings of previous research? Second, how does the compensation system affect employee performance in the context of strategic human resource management? Third, how does the interaction between competency development and the compensation system affect employee performance, and what factors moderate the relationship?

This study aims to analyze and synthesize literature related to the influence of competency development and compensation systems on employee performance from the perspective of strategic human resource management. Specifically, this study aims to: identify and analyze various research findings regarding the influence of competency development on employee performance; examine the influence of the compensation system on employee performance based on empirical studies; and analyze the interaction and synergy between competency development and the compensation system in improving employee performance.

This research is expected to provide significant theoretical and practical benefits for the development of human resource management science. Theoretically, this research contributes to the development of strategic HR management theory through a comprehensive literature synthesis and identification of *research gaps* for further research. Practically, the results of this study can be a reference for HR management practitioners in designing competency development strategies and effective compensation systems, as well as providing policy recommendations for organizations in optimizing investment in human resource development to achieve superior organizational performance.

LITERATURE REVIEW

Competency development is a continuous process aimed at enhancing individual capabilities within organizations. Spencer & Spencer in (Saban et al., 2020) define competency as underlying characteristics relating to individual performance effectiveness, comprising motives, traits, self-concept, knowledge, and skills. (Hartati, 2020) emphasizes competency as capacity enabling individuals to meet job demands within organizational parameters. (Guridno et al., 2020) classify competency into three dimensions: knowledge, skill, and attitude that interact to produce effective work behavior.

(Chevy Herli Sumerli A et al., 2020) advocate systematic competency development through various methods including formal training, on-the-job training, coaching, mentoring, and job rotation. (Amjad et al., 2021) emphasizes that effective development requires training needs analysis, appropriate design, proper implementation, and evaluation. In the digital era, (Kim & Jung, 2022) highlights the importance of digital competencies for technological adaptation.

Compensation systems serve crucial functions in attracting, motivating, and retaining employees. (Amjad et al., 2021) define compensation as all financial returns and tangible benefits received by employees. (Nyoman et al., 2023) classify compensation into direct (salary, wages, incentives) and indirect (benefits, insurance, facilities) categories. (Heslina & Syahrini, 2021) identifies four principles of effective compensation: internal equity, external competitiveness, individual motivation, and organizational ability to pay. (Parashakti et al., 2020) explains how employees compare

input-output ratios with colleagues, affecting motivation when inequity occurs. (Amjad et al., 2021) demonstrate that pay-for-performance systems significantly enhance motivation and performance.

Employee performance represents work results achieved according to organizational standards. (Riyanto et al., 2021) define performance as interaction between ability, motivation, and opportunity. (Rinny et al., 2022) developed an eight-dimension performance model encompassing task-specific skills, communication, effort demonstration, and leadership capabilities.

(Anwar & Abdullah, 2021) distinguish between task performance (direct contribution to production) and contextual performance (supporting psychological and social environment). (Manzoor et al., 2021) identify individual, organizational, and environmental factors influencing performance. (Chevy Herli Sumerli A et al., 2020) emphasizes integrated performance management systems for optimal results.

The Resource-Based View theory by (Davidescu et al., 2020) explains how unique employee competencies create competitive advantage. (Milliana et al., 2023) demonstrate positive correlation between competency development investment and organizational performance. (Nguyen, 2021) illustrates how compensation systems influence motivation through expectancy, instrumentality, and valence factors. (Rivaldo & Nabella, 2023) found synergistic effects when combining competency development with fair compensation systems. (Hongal & Kinange, 2020) showed that technical competency development with appropriate incentives significantly increases productivity. In Indonesian context, (Chevy Herli Sumerli A et al., 2020; Hajjali et al., 2022) identified organizational culture's moderating role in competency-performance relationships, emphasizing contextual factors in HR strategy design.

RESEARCH METHODS

This study uses the *Library Research* or literature research as the main method to analyze the influence of competency development and compensation systems on employee performance. The literature research method is an activity that involves collecting, reading, recording, and processing library data through combining findings from various sources, analyzing various readings, and criticizing or providing critical ideas to present a comprehensive perspective on the research topic. The selection of this method is based on the characteristics of research that aims to synthesize and analyze the body of knowledge that already exists in the field of strategic human resource management (Mahanum, 2021).

Literature research in this context is understood as a method that emphasizes the collection of information through online journals, books, and other supporting papers, as well as supporting documents such as guidelines for scientific papers to build a deep theoretical understanding. This approach allows researchers to identify, analyze, and synthesize previous research findings relevant to the topic of competency development and compensation systems in relation to employee performance. The literature method was chosen because it was able to provide a strong and comprehensive theoretical foundation to understand the phenomenon being studied without conducting direct field research.

The literature research process is carried out through several systematic stages that include identification of literature sources, secondary data collection, content analysis, and synthesis of findings. The literature source identification stage involves searching relevant literature from various academic databases, accredited journals, and reputable scientific publications in the field of human resource management. The inclusion criteria set include publications in the 2020-2025 time frame, the relevance of the topic to competency development and compensation systems, and the quality of adequate research methodologies. Literature review contains descriptions of theories, findings and other research materials obtained from reference materials to be used as the basis for research activities directed at compiling a clear frame of thought.

The data analysis technique in this study uses content *analysis* and thematic analysis approaches to identify the main patterns, themes, and findings of the literature studied. The analysis process was carried out inductively by categorizing research findings based on competency development variables, compensation systems, and employee performance, and identifying the relationships between these variables. The validity and reliability of research is ensured through source triangulation, i.e. the use of multiple sources from different databases and journals to verify the consistency of findings. Effective literature research requires the ability to organize, analyze, and synthesize information from a variety of sources to generate comprehensive understanding and new insights.

DISCUSSION

1. Conceptualization of Competency Development in Modern Organizations

Competency development is a multidimensional construct that encompasses the entire strategic effort to improve individual and organizational capabilities through a systematic and sustainable approach. Competencies in the context of strategic human resource management are understood as a complex aggregation of knowledge, skills, attitudes, and behaviors that allow individuals to demonstrate superior performance in their jobs. Contemporary research shows that competency development has evolved from a traditional approach that is reactive to a proactive strategy that is integrated with the organization's long-term business objectives (Kurniawati, 2025).

The cognitive dimension of competency development includes the acquisition of explicit and tacit knowledge relevant to the domain of work, while the psychomotor dimension includes the development of technical and interpersonal skills necessary for the execution of complex tasks. The affective dimension of competency development has to do with the formation of professional attitudes, organizational values, and a continuous learning orientation that supports adaptability in a dynamic work environment. The synergy between these three dimensions creates a foundation of holistic competencies that enable employees to not only meet current performance expectations, but also prepare for future challenges (Hairi et al., 2020).

The contemporary competency development methodology integrates a variety of formal, informal, and experiential learning approaches tailored to individual characteristics and organizational needs. Problem-based learning emerges as the dominant paradigm that places employees in authentic problematic situations to stimulate active and contextual learning. This approach replaces the passive learning method by engaging employees in the process of analytical thinking, collaborative problem-solving, and reflective practice that optimizes the internalization of competencies (Prasetyo & Joeliaty, 2020).

Digital technology has become a transformative catalyst in the competency development ecosystem, enabling personalized learning through adaptive learning systems, microlearning modules, and virtual reality simulations. The e-learning platform facilitates democratic access to high-quality learning resources while providing temporal and spatial flexibility that supports work-life integration. The analytics-driven approach in competency development allows organizations to conduct real-time monitoring of learning progress and identify competency gaps predictively.

2. Compensation System Architecture and Its Implications for Work Motivation

The compensation system represents the multifaceted complexity of the exchange relationship between the organization and employees, which encompasses an entire reward package designed to attract, motivate and retain high-quality talent. Modern compensation architecture integrates financial and non-financial components in a framework that is responsive to individual contributions, team performance, and organizational outcomes. The total reward approach has become the dominant paradigm that recognizes that employee motivation is influenced by a broad spectrum of rewards,

including monetary compensation, benefits packages, career development opportunities, work-life balance initiatives, and recognition programs (Reza & Neogy, 2025).

The financial compensation structure consists of a base salary as a stable component that reflects the market value of a particular position, variable pay related to performance metrics and organizational profitability, and long-term incentives that align the interests of employees with shareholders' value creation. The merit-based compensation system operationalizes the concept of pay-for-performance through differentiated reward allocation based on individual contribution and achievement levels. Equity considerations in the compensation system require internal consistency through job evaluation and external competitiveness through market benchmarking to ensure fairness perception and competitive positioning (Fulmer et al., 2023).

The psychological dimension of the compensation system operates through expectancy theory mechanisms, where employees evaluate the relationship between effort, performance, and rewards in forming motivational orientation. Procedural justice in compensation administration affects employee satisfaction and organizational commitment through transparency, consistency, and participation in decision-making processes. Recognition programs as a non-financial component provide psychological rewards that meet intrinsic motivation needs through acknowledgment of achievements, career advancement opportunities, and professional development investments (Fall & Roussel, 2020).

Technology-enabled compensation management systems facilitate real-time performance tracking, automated reward calculation, and personalized compensation communications that improve efficiency and accuracy in reward administration. Data analytics capabilities enable predictive modeling to optimize compensation costs and identify retention risks through compensation satisfaction surveys and turnover pattern analysis. Agile compensation approaches accommodate flexible work arrangements and project-based assignments through variable reward structures that are responsive to changing work dynamics.

3. Employee Performance Dynamics in the Context of Strategic Human Resource Management

Employee performance is a complex manifestation of the dynamic interaction between individual capabilities, motivational factors, environmental conditions, and organizational support systems that produce measurable outcomes in the form of productivity, quality, innovation, and customer satisfaction. Conceptualization of employee performance in contemporary literature adopts a multidimensional perspective that integrates task performance as core job-related activities, contextual performance that includes organizational citizenship behaviors, and adaptive performance that reflects the ability to adapt to changes in the work environment (Hoar et al., 2021).

Determinants of employee performance operate through multilevel influences that include individual-level factors such as competencies, motivation, and personality traits, team-level factors such as cohesion, communication, and leadership quality, and organizational-level factors such as culture, structure, and strategic orientation. The Ability-Motivation-Opportunity (AMO) framework provides a theoretical foundation for understanding that optimal performance is achieved when employees have the necessary abilities through competency development, sufficient motivation through appropriate rewards and recognition, and adequate opportunities through empowerment and resource availability (Obaid et al., 2022).

Performance measurement systems have evolved from traditional output-based metrics to balanced scorecard approaches that integrate financial and non-financial indicators, leading and lagging measures, as well as individual and collective performance dimensions. Behavioral indicators such as initiative-taking, collaboration effectiveness, and continuous learning orientation are becoming increasingly important in comprehensive performance evaluation frameworks. Real-time performance monitoring through digital platforms enables continuous feedback loops and just-in-time performance interventions that support agile performance management practices (Chalid et al., 2021).

Psychological contract theory explains that employee performance is influenced by perceived reciprocity in employment relationships, where the fulfillment of mutual expectations between employees and the organization creates positive work attitudes and enhanced performance outcomes. Employee engagement as a psychological state characterized by vigor, dedication, and absorption in work activities becomes a mediating mechanism that connects HR practices with performance outcomes. Work meaningfulness and job crafting behaviors allow employees to create personal significance in their work that encourages intrinsic motivation and sustained high performance.

4. Interrelationship of Competency Development and Compensation Systems in Performance Optimization

The synergy between competency development and the compensation system creates synergistic effects that strengthen the impact of each variable on employee performance through reinforcement mechanisms and complementary influences. Competency-based compensation systems operationalize this integration through linking reward allocation with demonstrated competency levels, creating powerful incentives for continuous learning and skill development. This approach overcomes the traditional disconnect between development investments and reward systems that often results in suboptimal returns on human capital investments (Haryoto, 2024).

The theoretical foundation for understanding this interrelationship comes from social exchange theory which explains that employees engage in reciprocal relationships with the organization, where perceived organizational investment in competency development creates obligations for enhanced performance contributions. Simultaneously, appropriately designed compensation systems signal organizational valuation of competencies and create extrinsic motivations that support learning behaviors. Resource-based view of the firm positioning competent human resources as strategic assets with sustainable competitive advantages can be built, while compensation systems function as mechanisms to leverage these assets (Kang & Lee, 2021).

Moderating effects in the competency-performance development relationship can be influenced by compensation satisfaction levels, where employees with higher compensation satisfaction show greater responsiveness to competency development opportunities. Conversely, compensation effectiveness can be enhanced when employees have adequate competencies to capitalize on performance-based reward opportunities. Individual differences in learning orientation, risk tolerance, and achievement motivation further moderate strength of the relationships between the two variables and performance outcomes (Zulkifli et al., 2022).

Sequential effects show that competency development creates a foundation for improved performance which subsequently enables access to higher compensation levels, creating virtuous cycles of continuous improvement. Time lags between competency investments and performance improvements, as well as between performance achievements and compensation adjustments, require careful design of both systems to maintain motivation and avoid frustration. Long-term orientation in both competency development and compensation planning is essential for realizing the full potential of integrated approaches.

5. Strategic Implications and Future Directions in Human Resource Management

The strategic implications of the findings regarding competency development and compensation systems for employee performance have profound ramifications for organizational competitiveness and sustainability in increasingly complex business environments. Organizations that successfully integrate competency development with compensation systems can achieve superior performance outcomes through enhanced employee engagement, improved retention rates, and strengthened organizational capabilities. Competitive advantage emerges from unique combinations

of human capital assets that are difficult to replicate by competitors, particularly when supported by aligned reward systems that reinforce desired behaviors and outcomes (Tahir et al., 2020).

Future trends in HR practices lead toward greater personalization in both competency development and compensation approaches, leveraging artificial intelligence and machine learning to create individualized development pathways and dynamic compensation adjustments. Micro-learning and just-in-time skill development will replace traditional training programs, while real-time performance tracking will enable more responsive compensation decisions. Blockchain technology has the potential to create transparent and tamper-proof records of competency achievements and performance contributions, facilitating more objective and fair compensation decisions (Singh et al., 2024).

Digital transformation implications require reconceptualization of traditional competency frameworks to incorporate digital literacies, data analytics capabilities, and remote collaboration skills as core competencies across all roles. Compensation systems need to adapt to support hybrid work arrangements, project-based engagements, and gig economy participants that increasingly characterize modern workforce compositions. Platform-based work models requiring new approaches for performance measurement and compensation allocation that account for variable work patterns and outcomes-based contributions (Bouwman et al., 2024).

Research directions for advancing understanding in this field include longitudinal studies examining causal relationships between variables, cross-cultural research exploring contextual factors that influence relationships effectiveness, and intervention studies testing specific integration approaches. Methodological innovations such as experience sampling methods, behavioral observation techniques, and physiological measures can provide richer insights into underlying mechanisms. Multi-level research designs examining individual, team, and organizational level effects simultaneously will contribute to a more comprehensive theoretical understanding.

CONCLUSION

A comprehensive investigation of the literature on competency development and compensation systems in the context of employee performance reveals the complexities of the interconnections that make up the fundamentals of strategic human resource management. The synthesis of findings demonstrates that competency development operates as a multidimensional determinant that includes cognitive, psychomotor, and affective dimensions in shaping individual capabilities. The compensation system serves as an architectural framework that integrates financial and non-financial components to create sophisticated motivational dynamics. The convergence of these two constructs produces synergistic effects that strengthen performance outcomes through reinforcement mechanisms and complementary influences. Strategic implications show that organizations that successfully integrate competency development with compensation alignment can achieve sustainable competitive advantages through enhanced human capital optimization. Future research directions indicate the need for longitudinal exploration to understand causal relationships as well as the development of frameworks that are adaptive to digital transformation and evolving workforce dynamics in contemporary organizational ecosystems.

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