

The Relationship Between Bonuses and Incentives and Employee Loyalty

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Abstract : *Variable compensation management is frequently evaluated mechanically through statistical figures, often neglecting the humanistic dimension of workers. This study aims to deeply explore how employees subjectively interpret bonuses and incentives, and how this lived experience transforms their loyalty orientation in the workplace. This research applies a qualitative method with a hermeneutic phenomenological approach. Data were gathered through semi-structured in-depth interviews with eight permanent employees in target-driven divisions, supported by passive participant observation and corporate document analysis. The data were systematically analyzed using the thematic analysis model. The study reveals three crucial findings. First, transparency in Key Performance Indicator (KPI) formulation serves as the primary foundation generating psychological safety and trust in management. Second, distributive justice in incentive disbursement acts as a catalyst that transforms transactional motivation into long-term affective commitment. Third, regulatory opacity and delays in fulfilling financial rights trigger an "emotional fracture" that erodes loyalty and stimulates the silent quitting phenomenon. This study concludes that genuine loyalty is not bought by material nominals, but rather nurtured through fair and transparent existential recognition. Management is advised to construct an integrated remuneration system to suppress turnover rates.*

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Introduction

Amidst intense global business competition, Human Resources (HR) management is no longer overlooked but is positioned as a key strategic pillar for maintaining organizational survival. Talent retention poses a significant challenge, as high employee turnover rates have the potential to drain operational costs and cripple internal productivity. In response to this critical issue, corporate management generally relies on variable financial instruments such as bonuses and incentives to secure staff loyalty. This policy rests on the premise that strengthening financial aspects beyond base wages

can trigger job satisfaction, which ultimately leads to strengthened employee commitment and long-term dedication to the institution where they work.

Although the linear interaction between financial incentives and employee loyalty has been extensively studied, most previous research has tended to use quantitative approaches that prioritize rigid statistical correlations. As a result, the human dimension and subjective psychological dynamics of employees are often overlooked in conceptual analyses. However, large amounts of material benefits do not always guarantee emotional retention; an unequal or non-transparent bonus distribution system is prone to sparking internal conflict and eroding work motivation. (Asep Saepul Ma'ruf, M. Azis Firdaus, 2021). Based on this, qualitative research is needed to explore in depth how workers interpret and perceive these reward policies from a social justice perspective, something that cannot be achieved simply through numbers or structured questionnaires.

This qualitative study was designed as an exploratory approach to address the methodological limitations of previous statistical-based research. The primary focus of the research is directed at the phenomenological interpretation and personal experiences of employees in responding to the incentive and bonus schemes they receive from management. Through in-depth interviews and comprehensive thematic analysis, this investigation aims to map how the values of professional recognition and distributive justice transform transactional motivation into strong affective commitment. The results of this study are expected to generate a new theoretical framework in the field of HR management and serve as an applicable guide for HRD practitioners in formulating a more humanistic, equitable, and effective remuneration system to maintain employee loyalty. (Fitriani R, 2023).

The urgency to reexamine this variable financial reward structure is growing with the post-pandemic work paradigm shift, where the modern workforce has become far more sensitive to issues of emotional well-being and mental stability in professional environments. The current loyalty crisis no longer manifests solely in formal resignations, but has also morphed into the phenomenon of silent quitting—a condition in which employees consciously limit their performance contributions to the minimum limits of their job descriptions due to a perceived lack of a clear career path. When annual bonuses or performance incentives are unilaterally changed or cut by management under the guise of efficiency without any room for equal negotiation, it is perceived by employees as a serious violation of the unwritten psychological contract. This situation creates a wide emotional distance, stifles a sense of belonging to the organization, and transforms the workplace into a cold, transactional arena, ultimately conditioning workers to continually seek opportunities to move to competing institutions that are perceived to better value their human contributions.

Through this contextual foundation, the scientific novelty of this research lies in its methodological courage to go beyond simply measuring "how much" a bonus is given, toward unpacking the essence of "how" the bonus is perceived and interpreted as a form of existential recognition for workers. By positioning procedural justice and distributive justice as the primary lenses of hermeneutic phenomenological analysis, this study seeks to map crucial points where financial stimuli experience meaning bias due to poor management communication governance. The conceptual contribution of this study is expected to not only complement the still very limited qualitative human resource management literature in Indonesia, but also offer a new applicable paradigm for corporate executives and HRD practitioners in designing variable remuneration architecture. A comprehensive understanding of employee emotional dynamics will ultimately become a powerful strategic instrument in maintaining internal loyalty, mitigating the risk of talent piracy, and maintaining the stability of organizational competitiveness sustainably in the global market.

Method

This research employed a qualitative approach with a hermeneutic phenomenological design. This approach was chosen to isolate, analyze, and understand the deepest essence of employees' lived experiences related to receiving bonus and incentive systems, and how these experiences transformed their loyalty orientations in the workplace. Through this design, the researcher positioned herself as a key instrument to capture subjective meaning without intervening or manipulating field data.

Results and Discussion

Based on thematic analysis of in-depth interview transcripts with eight informants, a comprehensive picture of employees' lived experiences related to financial reward schemes was obtained. Hermeneutic phenomenology revealed that bonuses and incentives are not interpreted simply as a means of economic transaction, but rather as a form of existential recognition for workers' professional contributions. These lived experiences transform into emotional anchors that dictate their level of loyalty to the corporation. (Suendro, 2025)

Understanding Bonus and Incentive Sheets: A Hermeneutic Phenomenological Study of Lived Experience and the Transformation of Employee Loyalty

The lived experiences of informants show that employee interpretation of bonuses is strongly influenced by the transparency of assessment indicators. When Key Performance Indicators (KPIs) are clearly outlined, employees develop a high level of trust in management. Informants reported that clear targets foster a sense of security and psychological stability in the workplace. A transparent variable remuneration policy fosters confidence that every drop of their sweat is fairly rewarded. (Rahayu, 2026).

From a theoretical perspective, this subjective experience confirms that workers' emotional bonds arise not from monetary rewards alone, but from a sense of procedural justice. This phenomenological finding reinforces previous qualitative studies that emphasized that transparent motivation and financial rewards are crucial catalysts for extending employee retention within an organization. (Andini, 2025). Without transparency, any amount of funding risks being seen as a subjective bias on the part of superiors, which can actually trigger internal rejection. (Yesabella, 2023).

Informants described how transparency in the bonus system creates the perception of a healthy, reciprocal relationship between employees and the organization. When companies consistently explain the basis for incentive calculations and provide feedback on performance achievements, employees perceive that the organization objectively values their contributions. This fosters the belief that opportunities for recognition are open to all employees, regardless of personal proximity to their superiors. As a result, employees shift their focus from speculation about the appraisal process to efforts to improve their performance. (Sunyoto, 2023).

At a deeper level, transparency of assessment indicators also serves as a mechanism for reducing uncertainty in the work environment. Informants revealed that they can set personal targets, set work priorities, and evaluate performance progress independently when assessment parameters are explained in detail. This clarity provides a clear direction regarding the behavior and work results expected by the organization. Thus, a transparent bonus system serves not only as a financial reward tool but also as a communication instrument that helps align individual goals with company objectives. (Stofberg, 2021).

In addition to increasing trust and job security, bonus transparency also strengthens an organizational culture based on accountability and professionalism. Informants believe that openness in performance appraisals fosters a more conducive work environment, as every decision regarding rewards can be rationally accounted for. In this situation, the potential for conflict, jealousy, and negative prejudice between employees can be minimized. Therefore, transparency is not only a supporting factor for the effectiveness of the remuneration system but also an important foundation for building harmonious, productive, and sustainable working relationships between employees and the organization. (Quintanar, 2022).

Beyond Financial Rewards: A Qualitative Exploration of Variable Compensation Fairness in Shaping Workers' Affective Commitment

Informants from the operations and marketing divisions reflected that achieving targets accompanied by timely incentive disbursement successfully transformed their work motivation. Their initial transactional orientation (working for wages) shifted to an affective commitment (working for mutual progress). Informants interpreted fair incentives as a form of humanizing the workforce. This appreciation triggered the emergence of the principle of reciprocity, where employees repay the company's kindness by securing their loyalty and rejecting offers from competing corporations.

Conceptually, loyalty is a manifestation of the psychological tendency of workers to maintain their membership status in the organization on an ongoing basis. (Kristin Juwita, 2021) This reciprocal relationship is formed because the fulfillment of financial rights beyond base salary simultaneously

boosts internal job satisfaction, which automatically minimizes employee turnover intentions. Incentives serve as a bridge that connects employees' personal goals with the company's strategic vision.

Anatomy of Transparency and Incentive Gaps: A Thematic Analysis of the Erosion of Employee Trust and Loyalty

Another aspect of this phenomenological approach reveals the phenomenon of "emotional fractures" when promised incentives are not consistently realized. Several informants described traumatic experiences when management unilaterally changed the bonus formula midway through the fiscal year. This negative experience gave rise to feelings of betrayal and eroded professional pride.

As a result, employee loyalty plummeted; they remained in the office only out of economic necessity, not genuine loyalty.

These psychological conditions demonstrate that the effectiveness of remuneration schemes fluctuates depending on their implementation. If reward instruments are managed unequally, unfairly, or experience bureaucratic delays, employee enthusiasm will plummet and disrupt collective performance stability.(Thirusanku, 2022)Financial disappointment triggers a release of emotional attachment, causing employees to open themselves to new career opportunities outside the organization.

How employee engagement and honest standardization of rules maintain the integrity of unwritten employment contracts

Further phenomenological exploration revealed that the transparency of the appraisal system does not stand alone but is closely intertwined with employee perceptions of procedural justice. Informants defined procedural justice in this context as the existence of a space for dialogue and consistent standardization in bonus determination. Several informants recounted positive experiences when management involved employee representatives or at least socialized changes to the target appraisal instrument before the start of the current fiscal year. This involvement fostered a sense of belonging and strengthened the unwritten psychological contract between employees and the corporation.

Theoretically, when employees perceive bonus allocation procedures to be objective, fair, and impartial, their loyalty will increase significantly—even when the actual bonus amount may not increase dramatically. Fairness in the process provides moral legitimacy for management in the eyes of employees. Conversely, if the process of determining financial rewards is perceived as secretive and manipulative, employees are likely to develop organizational cynicism. This confirms that procedural justice acts as a solid foundation supporting the effectiveness of variable compensation in securing emotional staff retention within the company.

How satisfaction from bonuses creates voluntary action to work beyond formal job descriptions for the betterment of the company

The final theme isolated from the informants' narratives was the emergence of Organizational Citizenship Behavior (OCB) as a result of satisfaction with the incentive scheme. OCB is an employee's voluntary action to perform work beyond their formal responsibilities to support the institution's progress. Informants who perceived a fair and transparent incentive system reflected that they were willing to help colleagues from other divisions, provide innovative ideas outside of work hours, or maintain office inventory responsibly. The experience of being materially rewarded triggered an internal drive to deliver their best contribution beyond the standards of their standard employment contract.(Putri, 2021).

This phenomenon demonstrates that a healthy incentive system can transform daily work behavior. Satisfying incentives simultaneously boost internal job satisfaction, which then manifests as a willingness to sacrifice for the organization. Conversely, when financial disappointment occurs (as described in Theme 3), OCB behavior is the first to collapse within employees. Workers will quickly limit their contributions to the bare minimum of their formal duties (quiet quitting), which gradually erodes the company's overall operational competitiveness.(Riantisari, 2021)

Informants' narratives indicate that satisfaction with bonuses not only creates a momentary sense of well-being but also builds a stronger psychological bond between employees and the organization. When a company is perceived as providing commensurate rewards for their contributions, employees

tend to develop a stronger sense of belonging. This feeling encourages them to maintain the company's reputation, actively participate in organizational activities, and demonstrate concern for the team's overall success. In this context, bonuses serve as a symbol of recognition that strengthens the emotional bond between individuals and their workplace.(Darmawati, 2013).

OCB behaviors stemming from bonus satisfaction also contribute to a collaborative and supportive work environment. Informants revealed they were more motivated to share knowledge, assist new employees in their adaptation process, and provide support to colleagues facing work difficulties. These voluntary actions create a positive ripple effect by increasing trust among team members and streamlining work coordination. Thus, the benefits of bonuses are not only felt by individual recipients but also spread to the group and organizational levels by improving the quality of social interactions in the workplace.(HAQUE, 2019).

These findings indicate that the effectiveness of a bonus system should be measured not only by short-term productivity gains, but also by its ability to foster extra-role behaviors that support organizational sustainability. Satisfaction with bonuses that are distributed fairly, consistently, and transparently can be a trigger for strong OCB. Therefore, companies need to view bonuses as a strategic instrument in human resource management, not simply as financial compensation. When employees feel valued and treated fairly, they are more willing to contribute beyond the formal demands of their jobs, creating a competitive advantage that is difficult for other organizations to replicate.(Prasetio, 2015).

Conclusion

Through the lens of hermeneutic phenomenology, this study successfully uncovered that the provision of bonuses and incentives cannot be viewed merely as instruments of rigid economic transactions between employers and workers. The deepest essence of employee lived experiences proves that this variable compensation scheme represents the existential recognition and humanization of the workforce in a professional environment. Genuine employee loyalty and fidelity are proven to thrive when management is able to integrate three main pillars in the remuneration system: transparency of assessment indicators (KPIs), timely disbursement, and proportional distributive justice. The psychological dynamics of workers indicate a massive motivational metamorphosis. The disbursement of bonuses managed by prioritizing the principle of procedural justice has proven successful in transforming shallow transactional motivation into a deeply rooted affective commitment, where workers feel a moral responsibility to maintain the sustainability of the organization. Conversely, unilateral cancellations, opacity (non-transparency) of formulas, and bureaucratic delays in employee financial rights act as triggers for "emotional cracks." This phenomenon of financial disappointment instantly erodes subjective trust and gives rise to silent quitting behavior, which ultimately paralyzes loyalty and encourages high employee turnover rates (turnover intention).

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