

EFFECT OF COMPENSATION ON EMPLOYEE MENTAL HEALTH THROUGH WORK STRESS IN MICROFINANCE INSTITUTIONS

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Abstract

This study examines how compensation influences employee mental health through work stress in microfinance institutions. The research was conducted at PNM Mekaar Arjasa Unit, Kangean Island, involving 43 employees using a census approach. Data were collected through structured questionnaires and analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The results show that compensation does not directly affect mental health but indirectly influences it through work stress. Fair and adequate compensation reduces work stress, which improves employees' psychological well-being. Conversely, imbalanced compensation increases emotional pressure and weakens mental health. These findings confirm that work stress acts as a mediating mechanism linking compensation and mental health. The study contributes to the Job Demand–Resources framework by emphasizing the psychological role of compensation in high-pressure microfinance environments. Practically, the findings suggest that compensation policies should be integrated with stress management strategies to maintain employee well-being and organizational stability.

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1. Introduction

In the dynamics of the microfinance services industry, employees play a strategic role in maintaining the sustainability of the organization and customer trust (Khan & Hameed, 2020). Microfinance institutions such as PNM Mekaar not only carry out business functions, but also carry out social missions in encouraging financial inclusion for low-income people. These characteristics make the work activities of employees, especially field workers, under relatively high pressure because they have to balance the demands of financing targets, the intensity of interaction with customers, and social responsibility to maintain the sustainability of micro businesses (Suh & Punnett, 2022). This condition causes the mental health aspect of employees to be an important element in maintaining performance stability, service quality, and overall organizational sustainability Chen et al., (2022).

In line with the increasing complexity of the work environment, attention to the psychological well-being of employees is increasingly becoming a strategic issue in human resource management Khalid & Syed, (2024). Employees who experience prolonged emotional distress tend to show decreased motivation, work burnout, and reduced quality of interaction with customers Zhou et al., (2022). In the context of microfinance institutions, this condition has the potential to have a direct impact on service quality, credit risk, and public trust in

institutions . Therefore, managing employee mental health is not only an individual issue, but also part of an organization's strategy in maintaining institutional performance and reputation.

One of the managerial instruments that has an important role in shaping the psychological condition of employees is compensation. From a management perspective, compensation serves not only as a tool to meet economic needs, but also as a symbol of reward, fairness, and recognition of employee contributions Figueiredo et al., (2025). Herzberg, (1959) through *Motivation–Hygiene Theory* explains that a fair and decent reward system serves as a hygienic factor that prevents the emergence of dissatisfaction and emotional distress in the employment relationship. When employees feel that their workload and risks are proportionately rewarded, they tend to have a better sense of security and psychological stability in carrying out tasks Jahroni & Darmawan, (2024).

However, in the context of organizations that have high work demands such as microfinance institutions, compensation does not always automatically result in good mental health Jones et al., (2024). Karasek, (1979) through *Job Strain Theory* Affirms that work pressure arises when the high demands of work are not balanced by adequate resources. In this case, compensation is one of the important resources that can help employees cope with work pressure, but its effectiveness depends largely on the extent to which it is able to balance the burden and responsibilities faced. When employees feel an imbalance between the demands of work and the rewards received, emotional stress and work burnout tend to increase .

This framework is reinforced by Bakker & Demerouti, (2007) in *Job Demand–Resources*, Jones et al., (2024)*Model* which states that compensation is part of the *Job Resources* which serves to reduce the negative impact of work demands on the psychological condition of employees. In this model, work demands such as targets, administrative burdens, and the pressure of interaction with clients can trigger stress, while work resources such as compensation, supervisor support, and role clarity act as psychological buffers. Thus, the effect of compensation on mental health does not work directly, but through its ability to manage and suppress work stress levels.

In the context of a stressful organization, work stress is a key mechanism that links management policies to the psychological state of employees. Research Rohmaniah et al., (2023) It shows that workload and role conflicts in organizations increase employee psychological stress, which ultimately affects work performance and well-being. These findings confirm that employees' mental state is not only determined by what the organization provides, but by how employees perceive the balance between demands and resources they have. In a microfinance environment, where employees face high target pressures and social demands, work stress is a determining factor in shaping mental health.

In addition, Iswari et al., (2024) It found that in situations of high psychological stress, individuals in organizations tend to seek protective mechanisms to maintain emotional stability and a sense of security. In an institutional context, compensation can be understood as a form of organizational protection that provides a sense of certainty and justice for employees. When compensation is felt to be fair and commensurate with the workload, employees have the psychological resources to manage work pressure. On the other hand, an imbalance between demands and rewards will amplify work stress and weaken mental well-being Li et al., (2023).

Although various studies have examined compensation, work stress, and employee well-being, there is still a gap in understanding how compensation affects mental health through work stress mechanisms, particularly in the context of microfinance institutions. Most previous studies have tended to look at compensation as a direct factor in satisfaction or performance, while the role of work stress as a psychological bridge between compensation policies and employees' mental state has not been studied in depth Yuliantini et al., (2024).

Based on these conditions, this study is directed to examine the role of work stress in bridging the influence of compensation on employee mental health in microfinance institutions,

especially PNM Mekaar Arjasa Unit Kangean Island. Through this approach, research is expected to make a theoretical contribution to the development of the *Job Demand–Resources Model* in the context of microfinance, as well as making a practical contribution to management in designing compensation policies that are not only performance-oriented, but also on the sustainability of employees' psychological well-being Bouwhuis et al., (2026).

2. Methods

This study uses a survey-based quantitative approach to understand how compensation affects employees' mental health through work stress. This approach was chosen because it allows researchers to systematically capture employees' perceptions of the reward system, work pressure, and their psychological well-being in the operational context of microfinance institutions. Through this approach, the relationship between variables can be analyzed in a structured manner to explain the dynamics of human resource management in PNM Mekaar:

Research Approach

This research is included in explanatory research, which is research directed to understand and explain how compensation policies affect the level of work stress and how the work stress impacts the mental health of employees in microfinance institutions. This study uses a cross-sectional design, where information collection is carried out over a specific period to describe the real conditions that employees are experiencing regarding the reward system, work pressure, and psychological well-being in carrying out their daily tasks.

Study Site and Time Frame

The research was carried out on microfinance institutions at PNM Mekaar Arjasa Unit of Kangean Island, which is one of the operational units with target-based work characteristics, intensity of direct interaction with customers, and demands for high performance achievement. The object of the research is all employees of PNM Mekaar Arjasa Unit who are directly involved in microfinance service and operational activities, so that they have a strong relationship with the issues of compensation, work stress, and mental health in the context of microfinance institutions.

Population and Sample

The population of this study is all active employees of PNM Mekaar Arjasa Unit of Kangean Island who are involved in operational activities of financing and customer assistance, totaling 43 people. All of these employees were involved as respondents so that the research was able to capture the working conditions, compensation system, stress levels, and mental health of employees as a whole in the context of microfinance institutions in the archipelago. This approach was chosen to obtain a complete and representative picture of the work dynamics of employees, so that the results of the research can be a solid basis for managerial decision-making.

Data Collection

Data were collected through a structured questionnaire that was compiled based on theoretical studies and previous research results. The research instrument used a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), to measure respondents' perception of each research construct. The questionnaire was distributed directly to respondents with the assistance of researchers to ensure a high response rate and optimal data quality.

Operational Definitions of Variables Measurement

This study operationalizes Compensation as a multidimensional construct reflecting the rewards received by employees as a return for their work contributions. The measurement captures key aspects of compensation that influence employees' perceptions of fairness, adequacy, and performance recognition within organizational contexts.

Tabel 1. Operational Definitions and Variable Measurement of Compensation

Variable	Code	Operational Definition	Dimension	Indicator Description	Source
Compensation	COM (X ₁)	Rewards received by employees as a return for their work contributions, which reflect fairness, adequacy, and performance-based recognition, and function as psychological resources influencing employees' motivation and work attitudes.	Fairness	Perceived fairness of compensation in relation to employees' work performance.	Herzberg (1959); Bakker & Demerouti (2007)
			Adequate Salary	Perceived appropriateness of salary in relation to job responsibilities.	
			Performance-Based Incentive	Perception that income reflects effort and job responsibilities.	
				Incentives or bonuses are provided based on performance achievement.	
				Incentives are proportional to the results achieved.	
		Fairness (Distributive & Procedural Justice)	Employees perceive that the compensation they receive is fair.		
			Employees perceive that the compensation they receive is fair.		

Source: Herzberg (1959); Bakker & Demerouti (2007)

This study defines Compensation as a multidimensional construct representing the rewards received by employees in return for their work contributions. Compensation is conceptualized as both an economic and psychological resource that shapes employees' perceptions of fairness, motivation, and work experiences. Based on Herzberg, (1959) Herzberg (1959) and Bakker & Demerouti, (2007), compensation is measured through fairness, adequate salary, performance-based incentives, and distributive and procedural justice, which collectively reflect employees' overall evaluation of the compensation system and its potential influence on work stress and mental health.

Tabel 2. Operational Definitions and Variable Measurement of Compensation

Variable	Code	Operational Definition	Dimension	Indicator Description	Source
Work Stress	WS (Z)	Psychological pressure experienced by employees due to excessive job demands, workload, and emotional strain that affect their physical and mental	Task Pressure	Psychological pressure arising from the large amount of work that must be completed.	Karasek (1979)
				Employees experience stress due to the volume of tasks assigned.	
			Anxiety	Emotional tension and feelings of anxiety related to work demands.	
				Employees feel anxious and tense while working.	
		Fatigue	Physical and mental exhaustion caused by continuous work activities.		
			Employees feel that their energy is drained due to work.		

condition in the workplace.	Emotional Exhaustion	Decreased ability to concentrate when workload increases. Employees experience difficulty focusing under high workload conditions.
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Source: Karasek (1979)

This study defines Work Stress as a multidimensional construct representing the psychological pressure experienced by employees as a result of excessive job demands and emotional strain. Work stress is conceptualized as a condition that affects both employees' physical and mental states and influences how they respond to work demands and organizational expectations. Based on Karasek, (1979) , work stress is measured through task pressure, anxiety, fatigue, and emotional exhaustion, which collectively reflect employees' overall experience of stress in the workplace and its potential impact on their mental health and work performance.

Tabel 3. Operational Definitions and Variable Measurement of Mental Health

Variable	Code	Operational Definition	Dimension	Indicator Description	Source
Mental Health	MH (Y)	A psychological condition reflecting employees' emotional well-being, ability to manage work-related stress, and capacity to maintain positive functioning in personal and professional life.	Self-Acceptance	Emotional exhaustion experienced after working for a long period. Employees feel that their energy is drained every working day.	Ryff (1995)
			Environmental Mastery	Feelings of anxiety and psychological pressure caused by work demands. Employees feel anxious or restless due to job responsibilities.	
			Positive Relations with Others	Feelings of life satisfaction and well-being. Employees feel happy with their job and maintain work-life balance.	
			Purpose in Life	Energy and motivation in performing work activities. Employees feel that their job provides meaning and life purpose.	

Source: Ryff (1995)

This study defines Mental Health as a multidimensional construct representing employees' psychological well-being and their ability to manage work-related pressures. Mental health is conceptualized as a condition that reflects employees' emotional stability, life satisfaction, and motivation in both personal and professional contexts. Based on Ryff (1995), mental health is measured through self-acceptance, environmental mastery, positive relations with others, and purpose in life, which collectively reflect employees' overall mental well-being and their capacity to function effectively in the workplace.

Data Analysis

The collected data were analyzed using the Partial Least Squares–Structural Equation Modeling (PLS-SEM) approach with the help of SmartPLS 4.0 software. This method is used

to map the relationship between compensation, work stress, and employee mental health in an integrated manner, including the role of work stress as a connecting mechanism, **as commonly applied in empirical structural and mediation research** (Iswari et al., 2024; Iswari & sodik, 2025) and within the framework of multivariate statistical analysis in behavioral research (Savitri et al., 2021).

The stages of analysis include: assessment of the suitability of indicators in representing each variable, mapping the relationship between compensation, work stress, and mental health, and examining the role of work stress as a liaison in the research model. Instrument validity and reliability were assessed before hypothesis testing. Convergent validity was evaluated using outer loading (>0.70) and Average Variance Extracted (AVE >0.50). Reliability was confirmed using Cronbach's Alpha and Composite Reliability (>0.70). Structural relationships were tested using bootstrapping with 5,000 resamples in SmartPLS 4.0 to examine path significance and mediation effects.

3. Result and Discussion

Results

Descriptive Statistics of Respondents

Descriptive statistics of respondents were used to provide an overview of the characteristics of research respondents based on gender, age, level of education, working period, and position. This description is important to understand the profile of PNM Mekaar employees of the Kangean Island Arjasa Unit as the object of research.

Table 4. Descriptive Statistics of Respondents

Characteristics	Categories	Frequency	Percentage (%)
Gender	Women	41	95,3%
	Male	2	4,7%
	Total	43	100%
Age	<20 Years	1	2,3%
	20 - 30 Years	42	97,7%
	31 - 40 Years	-	-
	41 - 50 Years	-	-
	>50 Years	-	-
	Total	43	100%
Final Education	High School / Vocational School	26	60,5%
	Diploma	2	4,7%
	S1	15	34,9%
	Total	43	100%
Tenure	<1 Year	5	11,6%
	1 – 5 Years	35	11,6%
	5 – 10 Years	3	7,0%
	Total	43	100%
Departments	Cang Head	1	2,3%
	Senior Account Officer	7	16,3%
	Finance Administration Officer	6	14,0%
	Account Officer	29	67,4%
	Total	43	100%

Source: Processed data (2026)

Based on Table 4, the composition of respondents is dominated by female employees, namely 41 people, while male employees amount to 2 people. This composition reflects the characteristics of the workforce at PNM Mekaar Arjasa Unit of Kangean Island, which is mostly filled by female field workers, in line with the characteristics of microfinance services that are oriented towards empowering women's groups.

From the age group, almost all respondents were in the age range of 20-30 years, namely 42 people, while only one person was under 20 years old. This condition shows that PNM Mekaar's workforce is dominated by employees of productive age who are physically and mentally relatively ready to face the high demands of field work, including target pressure and the intensity of interaction with customers.

Based on the latest education level, the majority of respondents are high school/vocational school graduates, namely 26 people, followed by 15 Bachelor (S1) graduates, and 2 Diploma graduates. This composition shows that human resources at PNM Mekaar are mostly from secondary education backgrounds, so the compensation, training, and work assistance system is an important factor in supporting their performance and psychological well-being.

In terms of working time, most of the respondents have worked between 1 and 5 years, which is as many as 35 people. This indicates that the majority of employees are in the phase of adaptation and career strengthening, where work pressure, target demands, and the need for certainty of rewards and compensation become very relevant in shaping their psychological condition and performance.

Judging from the position structure, the most respondents came from the position of Account Officer, which was 29 people, followed by 7 Senior Account Officers, 6 Finance Administration Officers, and one Head of Unit. This composition shows that the majority of respondents are operational personnel who directly interact with customers and face field workloads, making it very relevant in examining the relationship between compensation, work stress, and employee mental health in microfinance institutions.

Evaluation of Measurement Models (Outer Model)

Evaluation of the measurement model was carried out to ensure that all indicators used were able to accurately represent the constructs of Compensation, Work Stress, and Mental Health. At this stage, the quality of the instrument is assessed through the relationship between the indicator and the construct it measures, as well as the internal consistency between the indicators in one variable.

The results of the analysis showed that all indicators had an outer loading value above the threshold of 0.70, so that they met the criteria for convergent validity. In addition, the entire construct had a CR value above 0.70 and an AVE value above 0.50, indicating that the measurement instrument used was reliable and valid for further analysis.

Table 5. Validity and Reliability Test Results

Variable	Cronbach's Alpha	Composite Reliability	AVE
<i>Compensation</i>	0,958	0,964	0,773
<i>Work Stress</i>	0,965	0,970	0,849
<i>Mental Health</i>	0,974	0,978	0,802

Source: Processed data (2026)

The Compensation variable has a Cronbach's Alpha value of 0.958 and a Composite Reliability of 0.964, which indicates that all compensation indicators are able to describe the reward system that employees receive consistently and stably. An AVE value of 0.773 also indicates that the compensation construct is able to explain most of the variation in employees' perceptions of the reward system they receive.

The Work Stress variable showed a Cronbach's Alpha value of 0.965 and a Composite Reliability of 0.970, indicating that the indicators of work stress have a very high level of reliability in representing the work pressure experienced by employees. The AVE value of 0.849 reinforces that the work stress construct has a very strong explanatory power on the respondents' work experience.

Meanwhile, the Mental Health variable also showed excellent measurement quality with a Cronbach's Alpha value of 0.974, a Composite Reliability of 0.978, and an AVE of 0.802. This shows that all mental health indicators are able to capture employees' psychological states thoroughly and consistently.

Overall, these results confirm that the entire research construct of compensation, work stress, and mental health has been measured with a very high level of accuracy and reliability, making it feasible to use as a basis for analyzing the relationships between variables in this study. Here's a picture of the Outer Model:

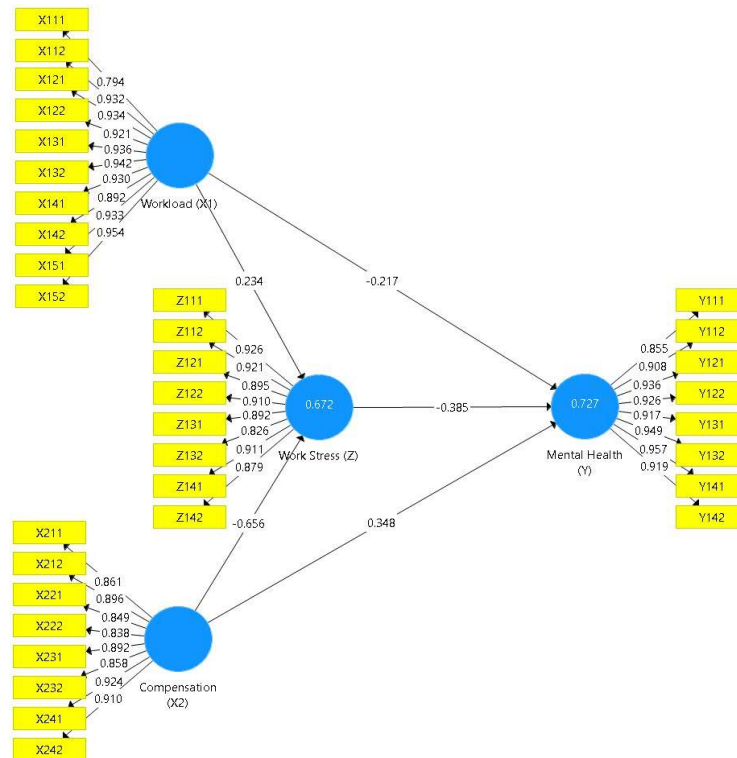


Figure 1. Outer Model

Evaluation of Structural Models (Inner Model)

Structural model evaluation was carried out to test the relationship between research variables. The assessment was carried out through the analysis of path coefficients, t-statistical values, and p-values obtained from the bootstrapping procedure on SmartPLS.

The R-square value in the Work Stress variable shows that the compensation received by employees has an important role in shaping the level of work pressure in microfinance institutions. Meanwhile, the R-square value on the Employee Mental Health variable shows that Work Stress is a key factor that bridges the influence of Compensation on the psychological condition of employees, so that the quality of the rewards provided by the organization contributes indirectly to the welfare of Mental Health

Table 6. R-square values.

Endogenous Latent Variable	R-Square
<i>Work Stress (W)</i>	0.672
<i>Mental Health (Y)</i>	0.727

Source: Processed data (2026)

Based on Table 6, the R-square value for the Work Stress (Z) variable of 0.672 indicates that the compensation received by employees is able to explain 67.2 percent of the variation in work stress levels. This value indicates that the compensation policies and practices implemented by microfinance institutions have a strong role in shaping employee work pressure conditions. The fairer, more decent, and more consistent the compensation provided, the lower the level of stress felt by employees in carrying out their duties.

The R-square value for the Mental Health (Y) variable of 0.727 indicates that work stress is able to explain 72.7 percent of the variation in employees' mental health conditions. These findings confirm that the level of work pressure is a very decisive factor in shaping the psychological well-being of employees in the microfinance work environment. When work stress can be managed properly, then employees' mental health tends to be more stable and positive.

Overall, the R-square values of both endogenous variables are in the strong category, which shows that structural models have a high clarity in explaining the dynamics of the relationship between compensation, work stress, and employee mental health. These results reinforce the conceptual framework of research that places work stress as a key linking mechanism in explaining how organizational compensation policies impact employee mental well-being in microfinance institutions. Here is a picture of the Inner Model:

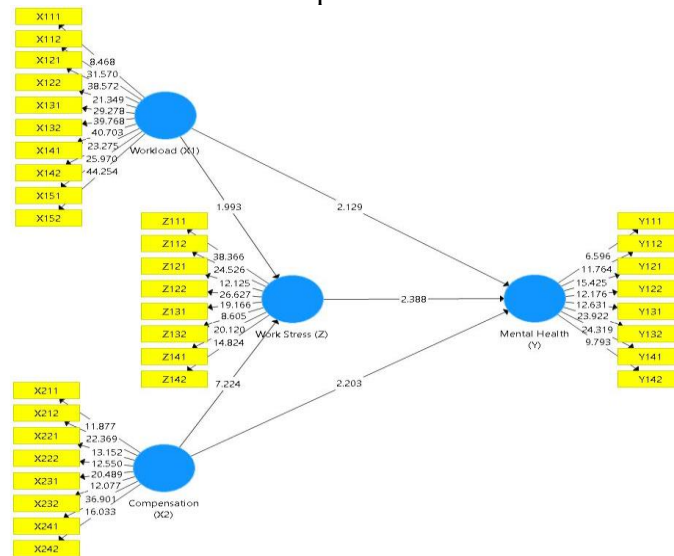


Figure 2. Inner Model

Hypothesis Testing Results

Hypothesis testing was carried out to assess the relationship between variables in the research model, which included the effect of compensation on work stress (H1), the effect of work stress on employee mental health (H2), and the role of work stress mediation in the relationship between compensation and employee mental health (H3). A summary of the results of testing the relationship between these variables is presented as follows.

Table 7. Hypothesis Testing Hasil

Path	T-Statistics	P-Value	Conclusion
H1 Compensation → Work Stress	7,224	0,000	Accepted
H2 Work Stress → Mental Health	2,388	0,017	Accepted
H3 Compensation → Work Stress → Mental Health	2,252	0,025	Accepted

Source: Data Processed, (2026)

Results of Hypothesis 1 (H1): Effect of Compensation on Work Stress.

The test results showed that compensation had a significant effect on employee stress work. These findings indicate that the reward system employees receive has an important role in shaping the psychological stress they experience in carrying out their work. In the context of microfinance institutions such as PNM Mekaar, employees are faced with financing distribution targets, the intensity of interaction with customers, and high social responsibility. When compensation is perceived as fair, feasible, and proportionate to the workload, employees tend to feel more psychologically secure and able to better manage the demands of the job. On the other hand, if compensation is felt to be unbalanced with work responsibilities, emotional pressure will increase and trigger work stress.

Results of Testing Hypothesis 2 (H2): The effect of work stress on Employees' mental health.

The test results show that work stress has a significant effect on employees' mental health. These findings confirm that the work pressures experienced by employees have direct implications for their psychological, emotional, and mental well-being. In the microfinance work environment, stress that arises due to performance targets, administrative demands, and pressure from customers can drain employees' mental energy. When work stress is not managed properly, employees are more prone to experiencing emotional exhaustion, anxiety, and decreased work motivation, which ultimately weakens mental health. Conversely, more controlled levels of work stress allow employees to remain calm, focused, and have a better psychological balance in carrying out their tasks.

Results of Hypothesis Testing 3 (H3): The Role of Work Stress Mediation in the Relationship between Compensation and Mental Health.

The test results showed that work stress mediated the effect of compensation on employee mental health. These findings indicate that compensation does not shape mental health directly, but works through work stress management mechanisms. Fair and adequate compensation helps employees feel valued, safe, and recognized by the organization. This sense of security reduces the emotional stress that arises due to the demands of work, so that work stress can be suppressed. When work stress decreases, the mental health condition of employees becomes more stable and positive. On the other hand, compensation that is not proportional to the workload will reinforce work stress, which ultimately weakens the psychological well-being of employees. So work stress acts as a connecting mechanism that explains how compensation affects employees' mental health. These findings emphasize that in microfinance institutions, compensation policies are not only an economic tool but also a strategic instrument to maintain psychological well-being and the sustainability of employee performance.

Discussion

The Effect of Compensation on Mental Health

The results of the study show that compensation has a positive effect. The results show that compensation has an effect on the level of work stress of employees. These findings confirm that compensation systems including basic salary, incentives, benefits, and non-financial awards play an important role in influencing employees' psychological experiences in the workplace.

In the context of microfinance institutions such as PNM Mekaar Arjasa Unit of Kangean Island, employees, especially field workers, work under the pressure of high financing targets, large service intensity to customers, and complexity of work in the archipelago. When organizational compensation is perceived to be fair, decent, and commensurate with the complexity of the task, employees tend to feel valued and psychologically secure. This helps them manage work demands more effectively and reduce work stress levels. On the other hand,

when rewards are disproportionate to a high workload, emotional dissatisfaction and psychological distress will increase.

These findings are supported by Herzberg, (1959) through Motivation–Hygiene Theory which explains that compensation is a hygienic factor that can prevent job dissatisfaction and emotional distress. In addition, previous research by Puspitawati & Atmaja, (2020) suggests that the imbalance between compensation and workload amplifies work stress because employees feel their contributions are not adequately appreciated.

In the context of microfinance institutions such as PNM Mekaar, where work targets and responsibilities are very demanding, compensation systems need to be designed not only as financial rewards, but also as psychological instruments that support employees' work resilience to high operational and emotional pressure.

The Effect of Work Stress on Mental Health

The results of this study also show that stress has a significant effect on employee mental health. These findings suggest that work stress not only impacts productivity and performance, but also on individual psychological well-being.

In a microfinance work environment, especially in units such as PNM Mekaar Arjasa, employees often face a combination of administrative demands, financing distribution targets, and intensive interpersonal relationships with economically vulnerable customers. This pressure, if not managed properly, can cause emotional exhaustion, decreased motivation, anxiety, and psychological well-being. This condition often arises in employees working in the field, where they have to balance organizational needs and customer expectations at the same time.

These findings are supported by Karasek, (1979) through Job Strain Theory, explaining that high work pressure without adequate work resources will negatively impact individual well-being. In addition, a study by Dharmayasa & Adnyani, (2020) shows a strong relationship between work stress levels and the psychological state of employees in service organizations.

In the context of PNM Mekaar Arjasa, organizations need to understand that unmanaged work pressure can reduce employees' mental health, which in turn will impact the quality of service to customers, the continuity of long-term relationships, and the overall stability of the organization.

The Role of Work Stress Mediation in Compensation and Mental Health Relationships

The results of the study show that work stress mediates the relationship between compensation and employee mental health. This means that compensation does not directly determine mental health conditions, but works through how compensation affects the work pressure experienced by employees.

In the framework Job Demand–Resources Model Bakker & Demerouti, (2007), work resources such as compensation function to suppress the negative effects of work demands, thereby helping employees maintain psychological balance. Thus, adequate compensation does not automatically strengthen mental health, but becomes more effective if it is able to reduce the work pressure felt by employees.

Previous research such as by Stephen & Yusianto, (2025) shows that psychological variables often act as important linking mechanisms between working conditions and work well-being outcomes.

In the context of PNM Mekaar Arjasa Unit of Kangean Island, this relationship is particularly relevant because employees work in an environment that demands high adaptation to service targets and expectations. Compensation designed without considering psychological aspects and work pressure control can strengthen work stress, thereby weakening the mental

health of employees. On the other hand, compensation that is strategically designed to support work-life balance can help reduce work stress, ultimately strengthening mental health.

So work stress plays a strategic role as a mechanism that bridges the impact of compensation policies on employees' mental health, making work stress management an important aspect in the design of the compensation system of microfinance organizations.

4. Conclusion

This study has several limitations. First, the research was conducted in a single microfinance unit, which may limit the generalizability of the findings. Second, the study focused only on compensation and work stress without considering other psychological and organizational variables such as leadership, organizational support, and work-life balance. Third, the cross-sectional design limits causal interpretation over time. Future studies are encouraged to include broader variables and longitudinal approaches to provide a more comprehensive understanding of employee mental health in microfinance institutions.

Based on the results of the research and discussion that has been described, this study shows that compensation has an important role in shaping the level of employee work stress in microfinance institutions. A reward system that is perceived to be fair, decent, and commensurate with the workload has been proven to provide a sense of psychological security for employees, so that the work pressure they face can be better controlled. This confirms that compensation not only functions as a tool to meet economic needs, but also as a managerial instrument in managing work pressure in a demanding work environment such as PNM Mekaar.

This study proves that work stress plays a role in determining the mental health condition of employees. Employees who experience high work pressure, either due to targets, administrative burdens, or the intensity of interactions with customers, tend to be more prone to experiencing emotional fatigue and psychological well-being disorders. On the other hand, when work stress can be managed properly, employees are better able to maintain emotional stability, work focus, and quality of service to customers.

This study confirms that work stress functions as a connecting mechanism in the relationship between compensation and employee mental health. Compensation does not directly shape mental health, but works through its ability to suppress or strengthen work stress. When the compensation system is perceived as fair and supportive, work pressure can be reduced so that employees' mental health is better maintained. On the other hand, an imbalance between workload and rewards will magnify work stress and weaken psychological well-being.

Limitations and Future Research Directions

This study has several limitations. First, the research was conducted in a single microfinance institution (PNM Mekaar Arjasa Unit, Kangean Island), which may limit the generalizability of the findings to other organizational contexts. Second, the study focused only on compensation and work stress, while other important factors such as leadership, organizational support, and work-life balance were not included.

Third, the cross-sectional design limits the ability to capture changes in employees' psychological conditions over time. Therefore, future studies are encouraged to involve broader research settings, apply longitudinal approaches, and include additional organizational and psychological variables to provide a more comprehensive understanding of employee mental health.

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