# The Effect of Compensation on Employee Performance with Motivation as An Intervening Variable

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**Abstract.** This study aimed to determine the effect of work motivation on compensation and its implications for employee performance. The type of research used is verification with quantitative methods. The data analysis technique uses PLS. The sample used was 51 employees. The results showed that 1) compensation influences work motivation with a value of 0.401 in the moderate category. 2) work motivation influences performance, with a value of 0.572 in the moderate category. The results show that compensation affects work motivation, and work motivation affects employee performance, so that it will impact work productivity.

**Keywords:** Human Resource Management, Compensation, Work Motivation, Employee Performance.

## 1 Introduction

The role of human resources is closely related to how a person can be managed or regulated in the organisation, with a focus on company policies and systems [1] because without human resources that are weighted in terms of strategy and operations, the company will not be able to maintain and achieve its organisational goals [2]. Human resources are essential, and the purpose of human resources is to maintain the company's survival because employees are the main driving factor of all company activities; therefore, superior employees get more serious attention from the company [3]. Personnel management is responsible for many activities, including employee recruitment, training and development, employee motivation and performance appraisal [4]. Good employee performance (individual performance) makes it possible to produce good company performance [5]. Employee performance is the measurable actions, behaviour and results that employees carry out in producing contributions to organisational goals [6].

The importance of improving employee performance as a form of employee duty is to complete work and goals, meet company expectations, and meet job targets [7]. Employee Performance Problems Found at PT Griya Mas Putra.

Employee performance is crucial for the company; therefore, the company's success largely depends on the responsibility and quality of employees [8].


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The issue of employee performance was first the topic of Darker's research in 1911 since the birth of management science [9], then in the distribution industry [10] further research in banking [11], followed by research on government [12], further research on the effect of innovation and employee performance on the effect of innovation and employee performance on the relationship between quality management practices and company performance in a study of companies in Turkey [13].

Performance is a function of work motivation, skills, and role perceptions; performance is a record of the results obtained from certain job functions or activities during a specific period. [14] argue that performance is how organisations evaluate or evaluate employee performance.

Good work motivation can encourage a person or workgroup to want to do something that has been determined. [15]. Work motivation can encourage employees to work hard and be disciplined to achieve company goals, namely, creating a conducive company work environment. [16] Work motivation will also make employees work to achieve company goals. It can lead to high employee performance because if employees do not have work motivation, they usually experience emotional depression [17]. Work motivation is increasingly important as managers distribute work to their subordinates to do it well and achieve the desired goal. Companies not only expect competent and skilled employees, but most importantly, they are willing to work hard and want to achieve maximum work results [18]. Therefore, understanding employee motivation will be fundamental to achieving goals, namely work achievement or performance and efficiency.

Compensation, if appropriately implemented to employees for what they have done for the company, can provide good performance. One of the keys to a company's success is to make employees have the ability in their field and create high work motivation to improve the performance of their employees [19]. In order to keep up with all employee developments, it is necessary to have targets and achieve a company's goals. It is necessary to encourage employees to work well, and one of these encouragements is the compensation factor. Fulfilling employee desires, such as good salary or wages, appreciation for the work done, and giving incentives per the career path, will spur employee performance [20]. Based on the previous explanation, this study aims to determine whether motivation and compensation affect employee performance.

## 2 METHODS

This research uses a Human Resource Management approach that analyses descriptive studies of motivation, compensation, and employee performance.

This research was conducted on PT Griya Mas Putra Banjar employees with a population of 51 employees. The research sample was taken using a saturated sample technique using the entire population and a questionnaire research instrument as a data collection tool. The variables in this study are work motivation with dimensions 1) achievement needs, 2) affiliation needs, 3) power needs, compensation with dimensions

1) direct compensation, 2) indirect compensation, and employee performance with dimensions 1) quality, 2) communication, 3) responsibility, 4) timeliness The type of research used is descriptive research, which is research to describe something, usually the characteristics of relevant groups, such as consumers, sellers, organisations, or market areas [21]. In this study, the truth of the hypothesis will be tested through field data collection regarding descriptive research on work motivation, compensation, and employee performance at PT Griya Mas Putra Banjar West Java, Indonesia. The data analysis technique used is descriptive with frequency distribution.

## 3 RESULTS AND DISCUSSION

The results of this study discuss the effect of compensation on work motivation and its implications for employee performance at PT Griya Mas Putra, so testing was carried out using SEM-PLS analysis.

1. Convergent Validity Test

Assessed based on the individual item reliability test using a standardised loading factor, which describes the magnitude of the correlation between each indicator and its construct. The loading factor value above 0.70 is stated as an ideal or valid measure as an indicator that measures the construct. However, for research in the early stages of developing a measurement scale, a loading value of 0.50 to 0.60 is considered sufficient [22]. The higher the loading factor, the more critical the loading is in interpreting the factor matrix. The use of average variance extract (AVE) as a criterion for testing convergent validity is obtained through the formula.

All indicators of each variable of work motivation, compensation, and employee performance have an average variance extract (AVE) above 0.5 so it is known that all indicators of work motivation, compensation, and employee performance are valid as indicators to measure their respective constructs/variable.

**Table 1. CONSTRUCT RELIABILITY AND VALIDITY**

| | *Cronbach's Alpha* | *Rho_A* | *Composite Reliability* | (AVE) |
|---|---|---|---|---|
| Compensation | 0.727 | 0.877 | 0.872 | 0.775 |
| Work Motivation | 0.851 | 0.851 | 0.899 | 0.691 |
| Employee Performance | 0.874 | 0.909 | 0.921 | 0.796 |

2. Discriminant Validity Test

To test whether the indicators of a construct are not highly correlated with indicators of other constructs. The discriminant validity of measurement models with reflective indicators is assessed based on the cross-loading of measurements with constructs. Suppose the correlation of the construct with the measurement item is more significant than the size of the other constructs. This indicates that the latent construct predicts the block size better than the other block sizes. Another way to find Discriminant Validity is to compare the square root value of the AVE of each construct with the correlation value between the construct and other constructs [23].

**Table 2. Cross Loading**

| | Compensation (X1) | Work Motivation (X2) | Employee Performance (Y) |
|---|---|---|---|
| KS 1 | 0.444 | 0.815 | 0.795 |
| KS 2 | 0.762 | 0.941 | 0.722 |
| MV 1 | 0.575 | 0.760 | 0.883 |
| MV 2 | 0.545 | 0.695 | 0.889 |
| MV 3 | 0.780 | 0.755 | 0.905 |
| KP 1 | 0.863 | 0.679 | 0.551 |
| KP 2 | 0.804 | 0.622 | 0.574 |
| KP 3 | 0.852 | 0.531 | 0.637 |
| KP 4 | 0.804 | 0.561 | 0.659 |

Indicators of indicators (X) KS1 - KS2 correlate higher with the compensation variable. Variable (Y) MV1 - MV3 correlates more with the work motivation variable (Y) than other variables. This is also the case with other variables. Indicators (Z) KP1 - KP4 correlate more with the employee performance variable (Z) than other variables. The higher value of cross-loading indicator 96 for these variables compared to other variables indicates that the discriminant validity in the study has been fulfilled.

3. Composite Validity

This is a better method than the Cronbach alpha value in testing the model reliability of structural equation models. The reliability of a composite measuring a construct can be evaluated with two kinds of measures, namely internal consistency and Cronbanch's alpha.

**Table 3**. Composite Reliability and Cronbanch's Alpha

| | *Cronbach's Alpha* | *Composite Reliability* |
|---|---|---|
| Compensation | 0.727 | 0.872 |
| Work Motivation | 0.851 | 0.899 |
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The composite reliability results for each variable ≥ 0.70. This shows that all indicators of each variable of work motivation, compensation, and employee performance can be said to have good reliability or reliability as a measuring tool.

4. Output R-Square (R2)

After the estimated model meets the Outer Model criteria, further structural model testing (inner model) is carried out. Then, the structural or inner model is tested by assessing the R-Square on endogenous constructs, namely the model fit test. The following is the R-Square value:

**Table 4.** Ouput R-Square (R2)

| | *R Square* |
|---|---|
| X → Y | 0.401 |
| Y → Z | 0.572 |

The R2 value of the endogenous constructs of work motivation (Y) and employee performance (Z) in the research model is strong, 0.401 and 0.572. This value shows that employee performance is explained by the work motivation construct by 57.2%, work motivation is explained by the compensation construct by 40.1%, and other variables outside the model explain the rest.

5. Stone Geisser's (Q2)

Stone Geisser's Q2 is used to see the relative influence of the structural model on the measurement of observations for endogenous latent variables. The Stene-Geiser criterion states that a model should be able to predict indicators of endogenous latent variables [24]. This technique can synthesise cross-validation and fitting functions with predictions from observed variables and construct estimates. Parameters This approach adapts PLS using a blindfolding procedure. The following are the predictive relevance values (Q2)

**Table 5.** Prediction Relevance (Q2)

| Construct | $Q^2$ | Keterangan |
|---|---|---|
| Work Motivation | 0.373 | >0 |
| Employee Performance | 0.591 | >0 |

The blindfolding construct value shows a value of Q2> 0. This gives the understanding that the value of endogenous variables has been well constructed so that the research model has predictive relevance.

6. Effect Size (F2)

Changes in R2 values can be used to see whether the measurement of exogenous latent variables on endogenous latent variables has a substantive effect. The effect size f2 can measure this. The criteria for assessing the effect size f2 are 0.02 (small), 0.15 (medium), and 0.35 (large). The following is the value of the effect size f2.

**Table 6.** Effect Size (F2)

| Construct | *Effect Size* | Kriteria |
|---|---|---|
| X → Y | 0.097 | Kecil |
| Y → Z | 0.122 | Sedang |

Source: Data processing results

The effect of compensation (X) has a small effect of (0.097) on work motivation while work motivation (Y) has a moderate effect of (0.122) on employee performance.

1. Goodness of Fit (GoF)

To validate the overall model, the Goodness of Fit (GoF) index introduced by Tenenhaus, et al (2004) is used as the GoF index. This index was developed to evaluate the measurement model and structural model and in addition it also provides a simple measure for the overall model prediction (Ghozali & Latan, 2015: 82). For this reason, the GoF index is calculated from the square root of the average comovement index and the average R-Square.

**Table 7.** Outer Loading Bootstrapping

| | Sampel Asli (O) | Rata-Rata Sampel (M) | (STDEV) | T -Statistik |
|---|---|---|---|---|
| KS 1 | 0.815 | 0.800 | 0.057 | 14.224 |
| KS 2 | 0.941 | 0.944 | 0.071 | 11.518 |
| MV 1 | 0.883 | 0.882 | 0.031 | 27.859 |
| MV 2 | 0.889 | 0.882 | 0.050 | 15.954 |
| MV 3 | 0.905 | 0.907 | 0.045 | 18.764 |
| KP 1 | 0.863 | 0.865 | 0.016 | 59.961 |
| KP 2 | 0.804 | 0.800 | 0.031 | 28.755 |
| KP 3 | 0.852 | 0.846 | 0.040 | 22.428 |
| KP 4 | 0.804 | 0.800 | 0.017 | 52.719 |

Source: Data processing results

The calculated t-values of latent variables for all indicators are obtained through boostrapping, so that the outer loading output value is obtained. In the outer loading table, the t-statistic value is greater than the t-table (1.677). From the outer loading results, it can be concluded that all construct indicators in the model are valid because the resulting t-statistic is greater than 1.677..

2. Hipotesis

H1 : There is an influence of compensation (X) on work motivation (Y) Based on the results of data processing Table 7, the research hypothesis states that compensation (X1) affects work motivation (Y). The test results of the parameter coefficient between compensation (X1) and work motivation (Y) show a positive effect of 28.6% with a t-statistic value of 1.737 and significant at $\alpha = 0.1$, it can be concluded that work motivation affects employee performance (1.737> 1.677), thus H1 is accepted.

H2: There is an influence of work motivation (Y) on employee performance (Y) Based on the results of data processing Table 4.22, the research hypothesis states that work motivation (Y) affects employee performance (Z). The test results of the parameter coefficient between work motivation (Y) and employee performance (Z) show a positive effect of 37.2% with a t-statistic value of 2.044 and significant at $\alpha = 0.05$, it can be concluded that compensation has an effect on employee performance (2.044> 2.020), thus H2.

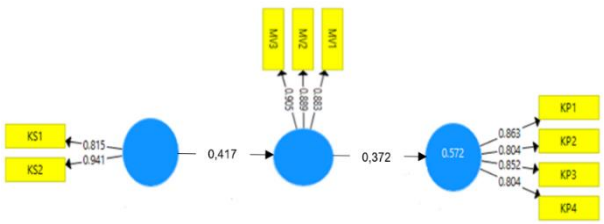


**Fig. 1.** Structural Model Testing Output

Based on these conclusions, it is recommended that each company can provide appropriate compensation by providing good motivation before starting work, improving and improving the relationship between superiors and subordinates, and paying more attention to the consequences of a lack of responsible staff. So it is expected that the company can improve its performance which has an impact on employee productivity.

## 4 CONCLUSIONS

Based on the results of research on the effect of compensation on work motivation and its implications for performance, it shows that leadership has a direct and positive effect on work motivation, because the better the compensation, the higher the work motivation. Then work motivation affects performance, this shows that the higher the employee's work motivation, the higher the employee's performance. So that the company's performance will increase so that the company's goals are achieved.

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