



The Effect of Compensation on Job Satisfaction and Employee Performance

Study on Employees of PDAM “Delta Tirta” Sidoarjo

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ABSTRACT

Human resource in this era is important of its benefit because by the development of technology, it will force company side to accommodate the quality of labor as an essential requirement of labor (the employees) can be exploited as maximum for the efficacy of company, of course this matter relate to giving of compensation to employees. It is because employees compensation of company cannot fully improve activity of work that conducted to yield high achievement yet because the result did not influence by store; giving a bonus salary, main salary and also subvention as standard of work and also to the skilled person, therefore there is a need of consideration to company of including the role of companies head did not able to give compensation as a facility which will able to improve employee work performance and employees job satisfaction.

Keywords: *Compensation, Job Satisfaction, Employee Performance*

INTRODUCTION

In the era of technology and information, organizations increasingly focus on human resource issues during their development, particularly on improving the quality of human resources as a central point for organizational success. Human resources are one of the most critical factors of production, distinguished by unique characteristics compared to other production factors. The success of a company or organization heavily depends on the quality of its human resources, supported by other production factors. To achieve this, it is essential to create an atmosphere that encourages the active and dynamic participation of the workforce. Human resources play a dual role: they are the drivers of business success and the beneficiaries of its results, particularly in terms of improved welfare. For instance, PDAM “Delta Tirta” recognizes that as technology evolves, it is crucial to enhance the quality of its human resources to maximize technological potential for the company’s success. This requires offering compensation that aligns with employee contributions. Compensation, as defined by Mondy and Robert (1993), is the remuneration provided by a company for services rendered in carrying out tasks. Fair and adequate compensation is vital to satisfying employee needs. If compensation fails to reflect the work performed, employee satisfaction is directly impacted, leading to diminished job performance. Conversely, when compensation meets employee needs and reflects their contributions, job satisfaction improves, resulting in enhanced performance. Job satisfaction depends largely on the alignment between an employee’s expectations, needs, or values, and their perceptions of what they have achieved through their work. Satisfied employees naturally perform better. However, PDAM Sidoarjo has faced challenges in achieving optimal work performance among its employees. From 2002 to 2006, employee performance failed to meet the standard set by PDAM Sidoarjo, which ranged from 76-100%. Thus, this study aims to examine the effect of compensation on employee work performance, to assess the impact of compensation on employee job satisfaction, and to analyze the influence of job satisfaction on employee work performance.

LITERATURE REVIEW

The rapid development of management, both as a scientific discipline and as a work method, has compelled those involved to focus on productivity, efficiency, and technical tools that can drive organizational improvement. Humans are the most critical resource in an organization for achieving success, but this must be supported by appropriate compensation as a reward for their contributions.

Simamora (2003) states that compensation encompasses financial returns, services, and benefits received by employees as part of the employment relationship. Compensation is often referred to as a reward and can be defined as a form of appreciation given to employees in return for their work performance (Handoko, 2005). Similarly, Notoatmodjo (1998) describes adequate

compensation as an organization's acknowledgment of its employees' performance. Siswanto (2003) defines compensation as a service reward or remuneration provided by a company to employees for their good performance, recognizing their contribution of energy and thought to the organization's progress and its achievement of set goals. Rivai (2002) further emphasizes that compensation is something employees receive in return for their contributions to organizational performance.

Based on these definitions, compensation can be summarized as a service reward provided to employees in the form of wages and salaries, bonuses, allowances, benefits, and direct services related to their work performance. Therefore, the hypothesis proposed in this study is as follows:

H₁: Compensation has a positive effect on employee work performance.

Compensation is provided based on company policy to all employees as an effort to enhance their welfare and job satisfaction. However, if an employee is dissatisfied with the compensation they receive, it can lead to higher turnover rates or a decrease in their motivation to perform. Conversely, when the compensation aligns with the employee's expectations, it fosters a sense of satisfaction.

Handoko (2016) suggests that when employees perceive the compensation as fair and adequate, their job satisfaction increases because they feel rewarded in proportion to their work performance. Similarly, Martoyo (2005) emphasizes that proper and fair compensation arrangements are key factors contributing to job satisfaction. Compensation holds significant importance for employees as individuals, as it reflects the value of their work among their peers, families, and society. In line with Notoatmodjo (1998), compensation is a critical measure of an employee's job value, and its adequacy can significantly impact work performance, motivation, and job satisfaction.

Based on these theories, it can be concluded that compensation influences employee job satisfaction. When compensation meets employee expectations, they feel satisfied with the recognition and reward for their contributions. Therefore, the hypothesis proposed in this study states that:

H₂: Compensation has a positive effect on employee job satisfaction.

Job satisfaction among employees results from a strong belief in specific treatments leading to desirable outcomes. This indicates that employee satisfaction, which enables the achievement of results, can drive higher performance. However, job satisfaction depends on whether employees' needs are met. Employees will feel satisfied when their work results align with their interests and expected needs.

According to Handoko (2005), employees who do not experience job satisfaction are unlikely to reach full productivity. Such employees often daydream, exhibit low morale, get tired or bored quickly, and engage in activities unrelated to their work. Conversely, employees with high job satisfaction demonstrate better attendance, improved work performance, and higher morale.

Armstrong (1987) posits that there is a positive relationship between job satisfaction and work performance. Theoretically, job satisfaction is often linked to job performance because achieving satisfaction is believed to motivate employees to enhance their performance. Similarly, Luthans (1998) concludes that while there is a clear relationship between satisfaction and performance, it may not be as substantial as conventional wisdom suggests, which assumes that happy employees are always more productive.

Mangkunegara (2001) defines job satisfaction as an attitude that supports or does not support employees in relation to their work and conditions. He further concludes that job satisfaction can positively influence employees' work attitudes, leading to higher performance. A shift in employee attitudes often indicates a change in job satisfaction. Mangkunegara also suggests measuring employee job satisfaction through factors such as working conditions, supervision, wages and salaries, promotions, and co-workers.

Hariandja (2002) proposes similar dimensions for evaluating job satisfaction, including salary, the nature of the work itself, leadership, career development opportunities, co-workers, and working conditions. Syarif (1997) highlights measures of employee performance, such as quality (smoothness, cleanliness, thoroughness), time (speed), diversity of skills, proficiency with tools, and knowledge of the work. Meanwhile, Dharma (Tintri, 2002) suggests evaluating work performance based on quantity, quality, and timeliness.

Based on these insights, the third hypothesis proposed in this study is as follows:

H₃: Job satisfaction has a positive effect on employee work performance.

RESEARCH METHODOLOGY

The population in this study consisted of all 363 employees of PDAM "DELTA TIRTA" Sidoarjo. The sampling method used was stratified random sampling, with a total of 110 employees selected as the sample, determined based on the rule of using the number of indicators multiplied by 10. The data used in this study comprised primary data (collected directly from the subjects) and secondary data (related to the object of study). Data sources included both primary and secondary data. Data collection methods involved observation, distributing questionnaires, conducting interviews, and analyzing documentary data. The analysis was carried out using Structural Equation Modeling (SEM) techniques.

RESULT AND DISCUSSION

Research Result

Multivariate Outlier Test

The Multivariate Outlier test was conducted using the Mahalanobis Distance (MD) criterion at a significance level of $p < 0.001$ (0.1%). The results showed a maximum multivariate distance (MD) of 39.431, which exceeds the critical value of 31.264 (χ^2 table). This indicates the presence of a multivariate outlier among the variables. Consequently, one case with extreme values affects the analysis results, while the other data points are not considered outliers. Therefore, this outlier case should be excluded, reducing the number of respondents in subsequent analyses.

Multicollinearity and Singularity Test

Tests for multicollinearity and singularity among the independent variables showed no signs of multicollinearity that could compromise the model. This is evident from the determinant of the sample covariance matrix, which is $4,277,491,756 > 0$, indicating the absence of multicollinearity or singularity in the data. Therefore, the assumptions are met.

One Step Approach Model Evaluation - Modification to SEM

The results of the model modification index analysis, used as an estimate, are shown in the following figure:

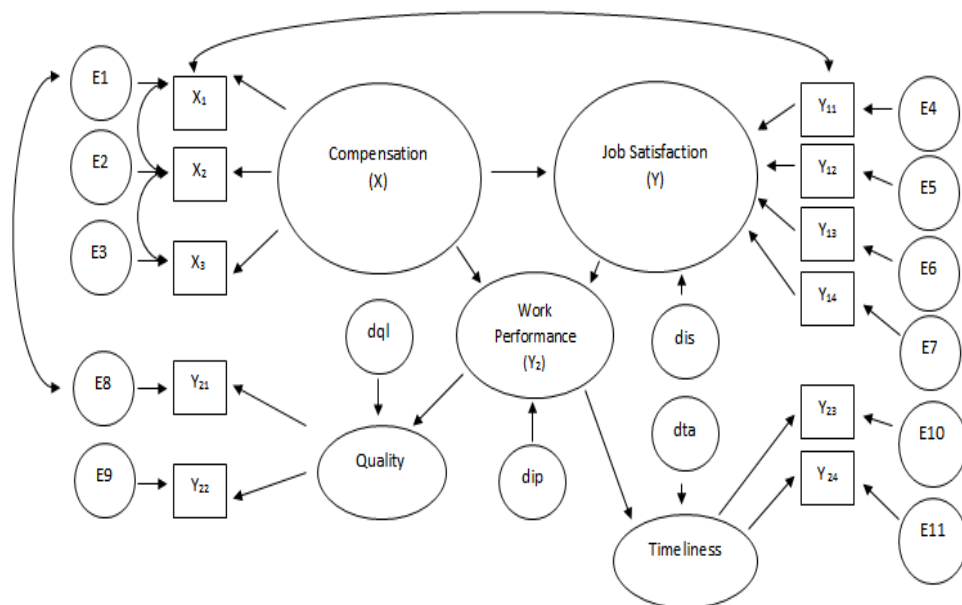


Figure 1. Structural Measurement Model

Source: Processed Data by Researcher

The analysis results of the model modification, as described above, also show the relationship between the residual variable indicators used for estimation. This relationship is presented in Table 1, which provides the detailed outcomes of the model modification analysis.

Table 1. The Result of Model Modification Analysis

Modification		Estimate	Prob.
er_1 <->	er_3	0.439	0.000
er_8 <->	er_10	0.228	0.000
er_2 <->	er_3	0.380	0.000
er_1 <->	er_2	0.347	0.000

Source: Primary Data

The results of the analysis regarding the criteria for Godness of Fit Indices can be seen in Table 2 as such following below:

Table 2. Evaluation of Goodness of Fit Indices Criteria

Criteria	Result	Critical Value	Model Evaluation
Cmin/DF	0.805	≤ 2.00	Good
Probability	0.799	≥ 0.05	Good
RMSEA	0.000	≤ 0.08	Good
GFI	0.953	≥ 0.90	Good
AGFI	0.919	≥ 0.90	Good
TLI	1.016	≥ 0.95	Good
CFI	1.000	≥ 0.94	Good

Source: Primary Data

Based on the evaluation results of the modified one-step approach model in Table 2, all the goodness-of-fit criteria indicate strong model evaluation outcomes. This implies that the model aligns well with the data. In other words, the conceptual model, developed based on theory, is fully supported by empirical evidence. Therefore, this model is the best option to explain the relationships between the variables.

Causality Hypothesis Test

Testing the causal hypothesis involves determining whether the model used is acceptable or aligns with the data. To examine the causal relationship between Compensation (X), Job Satisfaction (Y), and Performance (Z) in this model, the null hypothesis must be tested. This hypothesis states that the regression coefficient for the relationship is equal to zero. The t-test, which is identical to the CR (Critical Ratio) value, is used for this purpose, with probability serving as a criterion for accepting or rejecting the causal relationship in the model.

The results are shown in Table 3 below:

Table 3. Parameter Estimation

Regression Weights			
Factor \leftarrow Factor	Ustd. Estimate	Std. Estimate	Prob
Work Performance \leftarrow Compensation	0.793	1.886	0.145
Work Performance \leftarrow Job Satisfaction	-3.480	-1.630	0.303
Job Satisfaction \leftarrow Compensation	0.187	0.947	0.011
Significance Limit			≤ 0.05

Source: Primary Data

Based on the probability (Prob.) values and the direction of the causal relationships, the hypotheses can be interpreted as follows:

1. The compensation factor does not significantly affect work performance. This means the null hypothesis is accepted, and the alternative hypothesis is rejected, as the Prob. value of 0.145 is greater than 0.05, with a positive direction.
2. The job satisfaction factor does not significantly affect work performance. This means the null hypothesis is accepted, and the alternative hypothesis is rejected, as the Prob. value of 0.303 is greater than 0.05, with a negative direction.
3. The compensation factor significantly affects job satisfaction. This means the null hypothesis is rejected, and the alternative hypothesis is accepted, as the Prob. value of 0.011 is less than 0.05, with a positive direction.

Research Discussion

The results of this study show that the compensation factor does not have a significant effect on employee work performance. This is because the compensation provided to PDAM employees has not been able to fully enhance their work activities to achieve high performance. In other words, employee performance is not influenced by bonuses, allowances, or salaries that are standardized based on their work and skills. Therefore, companies need to consider the role of leadership in encouraging the use of compensation as a tool to improve employee performance and job satisfaction. These findings contradict Rivai's (2005) theory.

Similarly, the analysis indicates that job satisfaction does not have a significant effect on the work performance of PDAM employees. This may be due to employees' attitudes and their inability to evaluate their work effectively. Special attention and action are required to address the factors causing this lack of impact on work performance. Without such measures, job satisfaction cannot

guarantee improved work performance; instead, it may even decline. Companies must focus on better understanding employees' needs and desires, while leaders should actively engage with employees to address their concerns and provide future-oriented support. The findings reject Armstrong's (1987) theory.

On the other hand, the study finds that compensation has a significant and positive effect on employee job satisfaction. PDAM employees feel satisfied because the compensation they receive is fair and comparable to their colleagues' compensation. This sense of fairness contributes to their satisfaction and provides feedback that influences their behavior positively. These results reject Martoyo's (1998) theory.

CONCLUSION AND SUGGESTION

Conclusion

The study reveals that compensation does not have a significant positive effect on employee work performance, and this result is rejected. Similarly, it finds that job satisfaction does not have a significant negative effect on employee work performance, with this result also being rejected. However, the study demonstrates that compensation has a significant positive effect on job satisfaction, and this result is accepted.

Suggestion

The findings of this study are intended to inform decision-making for the leadership of PDAM 'DELTA TIRTA' Sidoarjo. Leaders are encouraged to evaluate the current compensation system to enhance employee performance. Additionally, attention should be given to the relationship between job satisfaction and employee performance, as this can significantly influence and improve performance outcomes. Moreover, company leaders should maintain a compensation system that fosters job satisfaction, as it provides employees with a clearer understanding of their satisfaction levels within the company.

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