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## THE EFFECT OF COMPENSATION ON SATISFACTION AND EMPLOYEE PERFORMANCE

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### ABSTRACT

The globalization era requires employees to have good performance and results. Therefore, many companies implement compensation system. Effective compensation is expected to add value to employee's satisfaction to stimulate employees to always work better. This research aim is to determine the effect of compensation on employee satisfaction and employee performance and employee satisfaction to mediate the effect of compensation on employee performance. The research objects are employees of PT. Telekomunikasi Indonesia. The data is collected by questionnaires and analyzed by SmartPLS version 2.0M3 software. The results show that compensation affects on employee satisfaction and employee performance at PT. Telekomunikasi Indonesia. Employee satisfaction can mediate the effect of compensation on employee performance. It can be concluded that compensation at PT. Telekomunikasi Indonesia, has been classified as good and can improve employee satisfaction and employee performance.

**Keywords:** Compensation, Satisfaction, Employee Performance.

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## INTRODUCTION

Globalization requires a person to always keep up with times, starting from thoughts and knowledge to generate some useful new inventions to facilitate human to do some work, especially in a company. Increased business competition due to rapid technological and environmental changes makes a company must have strength competitiveness. The old paradigm of human resources places employees as an asset to company, but now there has been a growing new paradigm that employees are partners for a company. Human resource management has a very strategic position for company sustainability. This is because inadequate basic materials such as performance, motivation, and job satisfaction and productivity will cause disruption to company's life sustainability.

The main driving factor for company good development is qualified human resources to encourage the company better. Compensation is one factor to affect job satisfaction of an employee. Sirait (2006) defines compensation as something received by an employee, either financial or non money reward for employee's contribution to organization. Compensation management is a very important activity to make employees quite satisfied in their work.

Compensation is defined as the ability and responsibility of a company to contribute to its employees for their achievement of task and to appreciate their performance. Each

organization should strive to improve employee satisfaction by providing a fair and competitive compensation program. High job satisfaction is expected to make employees become more loyal to organization; more motivated in work, feel happy in work, and ultimately will increase productivity.

Employee satisfaction to do a job is very influential. Rivai (2006) described satisfaction as an evaluation to describe a person for feeling happy or unhappy, satisfied or dissatisfied in work. This has a profound effect on employee performance. The employees are required to have a good performance and have the skills in doing the work. Sani and Maharani (2013) explains there are five indicators in determination job satisfaction, among others are Payments, Employment, Promotional Opportunities, Supervisors and Colleagues.

Performance reflects how well employees meet the requirements of a job. Basically every individual has a different portion of work. It can be seen from individual's skills and potential that directly affect on their performance. Mangkunegara (2005) explained performance as the work of quality and quantity achieved by an employee in performing their duties in accordance with responsibilities given. The work alone can be divided into two, namely hard work and smart work. Hard work includes people who always exert all their strength to work but the results are less satisfactory, while intelligent work is a work that uses a strategy to minimize the energy to do a job to get better outcome than hard work.

Lai (2011) shows a positive correlation between employee and job satisfaction based on payment, skill-based payments and performance-based payments. In addition, some demographic variables reveal a moderate effect on this relationship. The goal is to study the correlation between compensation system design and overall employee satisfaction. Nawab (2011) explains that employee compensation influenced organizational commitment and job satisfaction. Njoroge et al. (2015) shows a positive correlation between compensation and performance.

Yaseen (2013) explains that physician satisfaction can be improved by providing a good compensation system such as payment, recognition, promotional opportunities and meaningful employment. These factors have a positive relationship with physician's job satisfaction. The results show that salary, recognition, promotion opportunities, and meaningful employment are factors of compensation management to affect directly on job satisfaction of physician. But the main reason of not satisfied physician is they do not get the proper service structure and no meaningful work. The government should increase physician satisfaction by providing indirect types of compensation. Governments should implement appropriate performance management systems to address issues related to physician feedback, performance and promotion.

PT. Telekomunikasi Indonesia (Telkom) is one State-Owned Enterprises in telecommunication and network services in Indonesia. Telkom's business originally only operates telegraph, then telephone service and then multimedia business and now operates TIMES portfolio (Telecommunication, Informative, Media, Edutainment and Services). As the largest telecommunication and network service provider in Indonesia, PT. Telekomunikasi should also pay attention to employee satisfaction and performance. It also should be done in Telecommunication Region (WITEL) Kediri. Therefore, one factor that that should be concerned is employees performance among through compensation given by company to its employees.

Based on some above opinions, there is still some controversy, which refers to positive compensation of a company and there is also from other studies show that compensation is less influential positively to employees performance, but there are certain factors from

other variables, and not known how much affect and contribution of compensation to provide satisfaction in stimulating employee performance of company. This is very interesting to examine especially in era of globalization where many companies are less concern to compensation, employee satisfaction and performance. It will provide benefits for organization or other organizations in order to grow better.

## LITERATURE REVIEW

### Compensation

Sirait (2006) explains that Compensation is something accepted to employees, whether in form financial or non financial a reward for employee's contribution to organization. Management of compensation is a very important activity to make employees quite satisfied in their work. Compensation can acquire or create and maintain productivity. Without adequate compensation, existing employees tend to leave the organization and organizations will have difficulty in replacement, especially in recruiting.

Ardana (2012) said that compensation is everything received by employees as a reward for its contribution to company or organization. Compensation is everything that employees receive as a reward for their work. Panggabean (2004) also explained compensation as rewards and can be defined as any form of reward given to employees for contributions they provide to organization

Generally, purpose of compensation management is to assist companies to achieve the strategic objectives of corporate success and ensuring internal justice and external justice (Davis and Werther in Mangkuprawira, 2004). External justice ensures that jobs are fairly compensated based on compatible work in labor market. The internal justice ensures that demand for higher positions and more qualified persons within company will be given higher payouts.

The compensation according to Simamora (in Sinambela, 2016) consist of two kinds, namely (1) Financial Compensation and (1) Nonfinancial Compensation. Financial compensation can be divided by direct compensation, as (a) base pay, b) merit pay, incentive pay, bonuses, commissions, profit sharing, profit sharing, and share distribution and (c) differed pay, ie savings and stock purchase annuity programs. Then indirect compensation consists of (a) the benefit program, ie health insurance, life insurance, pensions and labor insurance, (b) payments outside working hours as holiday programs, annual leave and maternity leave, (c) vehicles, office space and parking lots. Nonfinancial Compensation can be divided into (a) occupations with interesting tasks, challenges, responsibilities, recognition and sense of accomplishment and (b) the working environment, as sound policies, competent supervisors, happy working atmosphere and a comfortable working environment.

### Satisfaction

Brayfield et al. (in Panggabean, 2004) provide a definition job satisfaction. They assume that job satisfaction can be expected from one's attitude toward his work. Moore (in Panggabean, 2004) argues that basically, job satisfaction depends on what one desire from their work and what they earn. The least satisfied are those who have the most desire, but get the least. While the most satisfied are people who want a lot and get it.

Rivai (2006) defined satisfaction as an evaluation to describe a person feeling for happy or unhappy, satisfied or dissatisfied in work. Meanwhile, according to Hariandja (in Salam, 2014), the factors affecting job satisfaction are: (1) salary, (2) the job itself, (3) colleagues, (4) boss and (5) promotion and work environment.

Smith, et al. (in Sani and Maharani, 2013) mentions the indicators of satisfaction among others are: (1) Payments, a sum received and perceived circumstances of payment; (2) Job, to what extent work assignments are considered attractive and provide an opportunity to learn to accept responsibility; (3) Promotion Opportunity, the opportunity to move forward; (4) Supervisor: supervisors ability to show interest and concern to employees; and (5) Co-workers, to what extent co-workers are friendly, competent and supportive

The factors affecting job satisfaction can be divided into two groups, namely Intrinsic and extrinsic factors. The intrinsic factors are comes from within employee and carried by every employee since starting work in his workplace. Extrinsic factors are come from outside employees, including the physical condition of work environment, interaction with other employees, payroll systems and so forth.

Job satisfaction can refer to compensation provided by employers, including salaries or benefits and other work facilities for their welfare. The welfare should not be neglected by managers. Personnel income is one factor to determine the productivity of employees (Salam, 2014). Related to determinants of job satisfaction, some researchers (Glison and Durick, Rousseau in Panggabean, 2004) suggested that these can be grouped into three groups: job characteristics, organizational characteristics and individual characteristics.

### **Performance**

Mangkunegara (2005) defined Performance as a work quality and quantity achieved by an employee in performing their duties in accordance with their responsibilities. Rivai (2006) said that performance is a function of motivation and ability to complete the task or work of a person with a certain degree of willingness and level of ability. Performance is a real behavior displayed by every person because a work performance is generated by employees in accordance with the role in company.

Sani and Maharani (2013) explained the performance measurement to see how far activity has been done by comparing the output or the results achieved. Some experts have some difference to measure performance. Dharma (in Sani and Maharani, 2013) provides a benchmark for performance, namely: Quantity, ie the amount to be completed; Quality, ie the quality produced; Accuracy of Time, ie conformity with time set.

Employee's performance improvement requires a performance appraisal. Performance appraisal generally covers both qualitative and quantitative aspects of job performance. Performance appraisal is one fundamental function of personnel, sometimes referred to as performance reviews, employee appraisals, performance evaluations, employee evaluations, or personnel rankings. All of these terms pertain to same process.

### **Hypothesis**

Based on results of previous research and theories, alternative hypothesis proposed in this study are below.

- H1: Compensation (X) directly affect on Employee Performance (Y<sub>2</sub>) at PT. Telekomunikasi Indonesia
- H2: Compensation (X) directly affect on Employee Satisfaction (Y<sub>1</sub>) at PT. Telekomunikasi Indonesia
- H3: Satisfaction (Y<sub>1</sub>) mediates the effect of Compensation (X) on Employee Performance (Y<sub>2</sub>) at PT. Telekomunikasi Indonesia.

## METHODS

### Research Design

This is an explanatory research type. The purpose of explanatory research is to answer or explain problems faced (Sani and Maharani, 2013). This research was conducted at PT. Telekomunikasi Indonesia, Tbk Witel (Telecommunication Area) Kediri, located at Jalan Hayam Wuruk number 45-47 Kediri, right side of GraPari Telkomsel Kediri. The location is very strategic because it is located in city center and easy to reach by community. The selection of this location is based on consideration that this SOE (State Owned Company) has a compensation that affects on the satisfaction and performance of its employees.

### Population and Sample

This research population is employees of PT. Telekomunikasi Indonesia, Tbk Witel Kediri which amounted to 70 people. This study uses saturation sampling technique, where all members of population are taken as sample. This is often done if the population is relatively small (Sani and Maharani, 2013)

### Data analysis

The data is analyzed by SmartPLS software version 2.0 M3. The PLS analyzes two things. First is to assess the outer model or measurement model to know the reliability and validity of research variables. There are three criteria to assess the outer model, namely convergent validity, discriminant validity and composite reliability. Second is to assess the inner model or structural model. Inner model or structural model testing is done to see the relationship between construct, significance value and R-square of research model

Mediation hypothesis is tested by procedure developed by Sobel (in Hayes et al., 2008) and known as the Sobel Test. Sobel test is done by testing the strength of significant effect of independent variable to depend variable through mediator variable. It is a mediator relationship.

## RESULTS

### Validity Test

The validity test results for reflective and formative construct can be seen in figure 1 below.

Figure 1. Validity Test



The second indicators of satisfaction variable (job promotion indicator (Y1.2) and co-workers' attitude indicator (Y1.4)) are negative AND discarded. PLS analysis discards the formative variables with a negative indicator. The complete indicators are shown in figure 2 below.

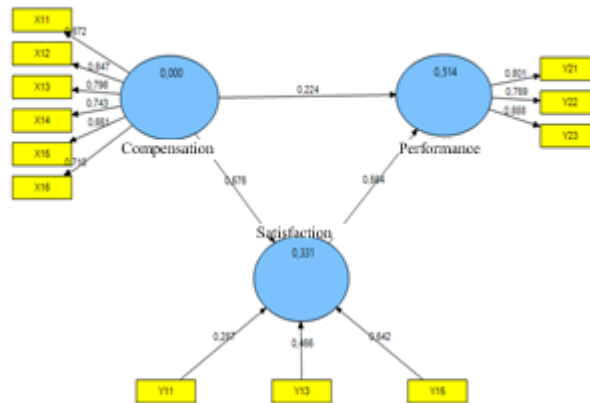


Figure 2. Path Diagram of PLS Algorithm

Figure 2 shows that Convergent validity can be seen through the loading factor and the Average Variance Extracted (AVE) and Commuality roots. The results meet the convergence validity test if the Average Variance Extracted (AVE) root and Commuality are above 0.5. Convergent validity test results are presented in table below.

Table 1. Average Variance Extracted (AVE) and Commuality

Variable	AVE	$\sqrt{AVE}$	Commuality	Description
Compensation	0.599	0.774	0.599	Valid
Employee performance	0.674	0.821	0.674	Valid

Table 1. Shows that Average Variance Extracted (AVE) and Commuality produce Average Variance Extracted (AVE) and Commuality values greater than 0.5. Thus the indicator is declared valid to measure the variable.

Table 2. Composite Reliability and Cronbach Alpha

Variables	Composite Reliability	Cronbachs Alpha
Compensation	0.899	0.865
Employee performance	0.861	0.759

Table 2 shows that Composite Reliability and Cronbach Alpha results for compensation variable is 0.899 and employee performance variable is 0.846. These results show that composite value reliability is greater than 0.7. Therefore, based on composite reliability calculation, all indicators are reliable to measure latent variables.

### Hypothesis Test

Significance tests are used to know the effect of exogenous variables on endogenous variables. The value of t-statistics  $\geq$  t-table (1.96) means that exogenous variable has significant effect on endogenous variables. The significance test results can be seen in table 3 below.

**Table 3. Hypothesis test**

Exogenous Variables	Endogenous Variables	Direct Coefficient	Standard Error	t Statistics
Compensation	Employee Satisfaction	0.576	0.052	11.047
Compensation	Employee Performance	0.548	0.057	3.289
Employee Satisfaction	Employee Performance	0.564	0.063	8.948

The effect of compensation on employee satisfaction has statistical t value of 11.047. The test results show that t value of statistic > 1.96. This means compensation has significant effect on employee satisfaction.

The effect of compensation on employee performance has t-statistic of 3,289. The test results show that t value of statistic > 1.96. This means that compensation has significant effect on employee performance.

The effect of employee satisfaction on employee performance has a statistical t value of 8.948. The test results show that value of t statistics > 1.96. This means employee satisfaction has significant effect on employee performance. The indirect effect test is shown in table 4 below.

**Table 4. Indirect Effect Test (Sobel Test)**

Exogenous Variables	Endogenous Variables	Intervening Variables	Indirect Coefficient	Standard Error (STERR)	T Statistics ( O/STERR )
Compensation	Employee Performance	Employee Satisfaction	0.325	0.047	6.953

Table 4 shows the indirect effect (Test Sobel) of compensation on employee performance through employee satisfaction has t statistics of 6.953. The test results show that value of t statistics > 1.96. It means compensation has a significant effect on employee performance mediated by employee satisfaction. Therefore, employees satisfaction can mediate the effect of compensation on employee performance.

## DISCUSSION

### **Direct effect of Compensation on Employee Performance at PT. Telekomunikasi Indonesia**

Tests results show that compensation has direct and significant effect on employee performance at PT. Telekomunikasi Indonesia. The compensation in form of salary, wages, bonuses, facilities, travel programs and holiday allowance directly have a positive effect on employee performance. This can be seen from salary indicator loading (0.872). In other words, contribution of salary indicator to measure the compensation variable is 87.2%. Salary indicator is the highest loading value among the other indicators. While the relationship between compensation on employee performance is 9.635 It indicates that value of t statistics > 1.96. The result proves that exogenous variable (Compensation) directly has direct and significant effect on endogen variable (Employee Performance). It means the higher the compensation given by company to its employees will increase the employee performance.

### **Direct effect of Compensation on Employee Satisfaction at PT. Telekomunikasi Indonesia**

Test results show that compensation has direct and significant effect on employee satisfaction at PT. Telekomunikasi Indonesia. This shows that compensation in form of salary, wages, bonuses, facilities, travel programs, holiday allowance directly have direct and significant effect on employee satisfaction. It can be seen from significance test

between the compensation variable and employee satisfaction variable to get statistical t value of 11.047. The test results show that t value of statistic > 1.96. This proves that exogenous variable (Compensation) have direct and significant effect on endogenous variable (Employee Satisfaction). It means the higher compensation given by company to its employees will increase employee satisfaction.

### **Employee Satisfaction mediates the effect of Compensation on Employee Performance at PT. Telekomunikasi Indonesia**

Statistic test results show that employee satisfaction mediate the effect of compensation on employee performance at PT. Telekomunikasi Indonesia. This can be known from Sobel test of 6.953. The test results show that t value of statistic > 1.96. This indicates that compensation has direct and significant effect on employee performance mediated by employee satisfaction. Therefore, employees satisfaction can mediate the effect of compensation on employee performance.

This is consistent with Equity theory of Rivai (2006) that person's satisfaction or dissatisfaction depends on presence or absence of equity in a situation, especially the work situation. According to this theory, the main components in equity theory are input, outcome, justice and injustice. The inputs are valuable factors for employees who are considered to support their work, such as education, experience, skills, number of tasks and equipment used to carry out their work. The result is something that an employee might earn from his job, such as wages or salaries, side benefits, symbols, status, rewards and opportunities for success or self-actualization.

### **Research Limitation**

This study only examine general compensation, regardless the type of compensation; so it has not been able to map which types of compensation are able to improve employee satisfaction and performance. Future researcher should see compensation from financial and non-financial compensation; or from direct compensation and indirect compensation.

### **CONCLUSION**

Compensation variable directly affects on Employee Performance variable. This shows that compensation in form of salary, wages, bonuses, facilities, travel programs and holiday allowance directly have a positive effect on employee performance. Compensation variable directly affects on Employee Satisfaction variable. The higher the compensation given the by company to its employees will increase employee satisfaction. Job satisfaction mediates the effect of compensation on employee performance. When someone is satisfied with compensation provided by company, it will improve the employee's performance.

Compensation and job satisfaction are components to improve employee performance. Leaders need to maintain job satisfaction maintained to create organizational efficiency. Future researcher should develop a research model by adding OCB variable, to make research become wider.

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