



## Effect of Compensation on Employee Performance towards Motivation as Mediation Variable



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### Abstract

The purpose of this study was to analyze and explain the role of mediation motivation in the relationship of compensation to employee performance at Wisma Prashanti Hospital. The population in this study were employees of Wisma Prashanti Hospital with a total sample of 83 respondents. The sampling technique is carried out is a saturated sample technique, the entire population is used as a sample. The research instrument used a questionnaire and analysis method using Partial Least Square (PLS) with SmartPLS 3.2 software. The results showed (1) compensation has a positive and significant effect on employee performance (2) compensation has a positive and significant effect on motivation (3) motivation has a positive and significant effect on employee performance (4) motivation mediates partially and positively and significantly on the relationship between compensation and employee performance. The implications of the results of this study indicate that compensation is found to be a major factor in improving employee performance.

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### 1. Introduction

In improving the performance of its employees the company will do several ways that can encourage employees to work optimally. Some of these activities include providing training, giving compensation, giving awards and so on. Compensation is something that employees receive as a substitute for their service contribution to the company. Every employee in an organization has the desire to get compensation according to their expectations. If these expectations are met, then the employee will always be passionate about work. Compensation based on classification consists of cash compensation and non-cash compensation (Berger, 2008). Compensation is also a form of financial compensation

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for tangible services and benefits obtained by employees as part of the employment relationship. If compensation is appropriate, employees are more satisfied and motivated to achieve organizational goals.

The form of compensation given to employees is in the form of salary. A salary is a form of compensation given regularly in accordance with the work performance of employees. According to [Panggabean \(2004\)](#), salaries as financial rewards that are paid to employees on a regular basis such as annual, quarterly, monthly, or weekly. Salaries can be used as a tool to motivate employees to improve employee work performance and stimulate employees to play an active and positive role in achieving company goals.

Just giving a salary is not enough to motivate employees. Companies need to provide incentives as different rewards. The incentives given vary by each employee. Suppose that two employees people who have the same position will get different incentives because giving incentives depends on the achievements of each individual. Incentives are a form of financial encouragement given to employees for the achievements of employees. Incentives are awards in the form of money given to employees who have worked well and exceeded specified standards.

Employee performance will be optimal if the company provides motivation to its employees. In order for the company's operations to run well, the company needs to increase the work motivation of its employees in order to achieve maximum results. The company will get many benefits if it always increases the work motivation of its employees. These benefits include, work or tasks that are the responsibility of the employee will be quickly resolved, employee absenteeism can be minimized, and the movement of employees can be minimized to a minimum.

The results of the [Ulfa \(2013\)](#), the study that proves that financial compensation and non-financial compensation have a significant positive effect on work motivation. Likewise, [Prapthepkant \(2011\)](#), shows the results of research that rewards have a positive and significant effect on motivation. The effect of financial compensation on work motivation is significantly positive, so that more properly implemented financial compensation given to employees will be able to motivate employees to work. Whereas non-financial compensation for work motivation is also significantly positive, so it can be said that the non-financial compensation provided can also motivate employees to work harder and improve the quality of their work.

Compensation is not the only factor that influences employee motivation but also affects employee performance, compensation is still recognized as one of the determining factors in order to improve employee performance. If it is associated with job evaluation, then the employee will be more enthusiastic and maximize his work, because he feels valued in his work. Employees crave that performance will be positively related to the compensation provided by the company. Employees determine expectations regarding compensation received if a certain level of performance is reached. The research results of [Allen & Der Velden \(2001\)](#); [Adeoti & Isaka \(2006\)](#); [Jamil & Raja \(2012\)](#), state that compensation has a significant and positive effect on performance. The performance will increase if the compensation amount is increased. Another study conducted by [Robinson \(2005\)](#), says there is a positive relationship between compensation and performance.

According to [Anyim et al., \(2012\)](#), in his research stated that employee motivation is an effective strategy to improve employee performance. [Muogbo \(2013\)](#), in his research, found that there was a significant positive relationship between extrinsic motivation and employee performance.

### *Literature Review and Hypothesis Development*

#### *The Effect of Compensation on Employee Performance*

According to [Hameed et al., \(2014\)](#), compensation has a significant positive effect on employee performance. Research conducted by [Muhammad & Abdullah \(2016\)](#); [Idris \(2015\)](#), [Kawiana et al., \(2018\)](#); [Widiani et al., \(2019\)](#), obtained results that compensation has a positive and significant effect on employee performance. The greater the compensation received by employees, the greater the performance of these employees. The research results of [Allen & Der Velden \(2001\)](#); [Adeoti & Isaka \(2006\)](#); [Jamil & Raja \(2012\)](#), state that compensation has a significant and positive effect on performance. The performance will increase if the compensation amount is increased. Another study conducted by [Robinson \(2005\)](#), says there is a positive relationship between compensation and performance. Compensation given based on employee skills can satisfy employees, this causes employees to increasingly improve their performance in order to get higher compensation. Compensation has the greatest influence on employee performance. Compensations such as salaries, bonuses, incentives, benefits, awards are given by companies fairly and properly can improve employee performance. In the study of [Carlson et al., \(2006\)](#), it was found that intensive giving in cash would have a positive impact on employee performance. [Aktar et al., \(2012\)](#), prove that rewards have a positive and significant effect on employee performance.

#### *H1: Compensation has a positive effect on employee performance*

### *The Effects of Compensation on Motivation*

Nurcahyani & Adnyani (2016), in their research entitled Effect of compensation and motivation on employee performance with job satisfaction as an intervening variable, found that compensation has a positive and significant influence on employee performance. The study stated that the number of respondents who felt that the compensation given had not been felt fair made him describe the recommendations in the form of advice to the management of the company to compensate fairly and motivate employees with promotion. Negash *et al.*, (2014), state that payment, promotion, recognition, and working conditions influence work motivation and have a positive significant effect on the relationship between compensation and work motivation. In this study stated that there is a strong relationship between compensation and work motivation of employees. Rizal *et al.*, (2014), Pant & Yadav (2016); Hidayat & Budiartma (2018), also found a significant relationship between compensation and motivation. The greater the compensation provided, the greater the work motivation of employees to improve their performance. If the service provided by the company is large enough, the manager will be easy to motivate his employees.

*H2: Compensation has a positive effect on motivation*

### *The Effect of Motivation on Employee Performance*

Research conducted by Marcahyono (2012), which states that motivation has a significant effect on employee performance. According to Munandar (2001), there is a positive relationship between motivation and performance with achievement, meaning employees who have high achievement motivation tend to have high performance, on the contrary, those who have low performance are possible because of low motivation. The results of Musriha (2011), state that motivation significantly influences employee performance. According to Anyim *et al.*, (2012), in his research stated that employee motivation is an effective strategy to improve employee performance. Muogbo (2013), in his research, found that there was a significant positive relationship between extrinsic motivation and employee performance. Yunita & Saputra (2019), state that the results of their research are that there is a strong relationship between motivation and employee performance. Similar things were also found in the research of Abdulsalam & Mawoli (2012); Zameer *et al.*, (2014), Rizwan *et al.*, (2014). The results of research conducted by Kiruja and Elegwa (2013) found that motivation has a positive and significant effect on employee performance. Dessler (2003), Martini & Suardana (2019), observed that outstanding and talented employees are the driving force of all institutions so it is very important for institutions to try to motivate and retain the best employees.

*H3: Motivation has a positive effect on employee performance*

### *The Role of Motivation as a Mediation of the Effects of Compensation on Employee Performance*

Research conducted by John & Smith (2014), states compensation has a positive and significant effect on employee motivation and performance. The employee will be motivated to spend a large amount of effort in his work if he feels that previous efforts have resulted in the rewards or rewards he has received. Prapthepkant (2011), shows the results of research that rewards have a positive and significant effect on motivation. The same is the case with Fairbank & Williams (2011); Eisenberger & Rhoades (2001), which state that there is a positive influence between reward and motivation. Rewards play an important role in motivating employees to be more creative so as to improve employee performance. The results of research conducted by Rini *et al.*, (2014), finding compensation indirectly has a positive and significant effect on performance through motivation on employees. The results of research conducted by Gungor (2011), found that rewards have a positive and significant indirect effect on employee performance through motivation as mediation. In this study explained extrinsic and intrinsic motivation as meditation had a positive effect on employee performance. Motivation is said to mediate the effect of compensation on employee performance because compensation has an indirect influence on employee performance through motivation.

*H4: Motivation mediates the effect of compensation on employee performance*

## **2. Materials and Methods**

This research was conducted at Wisma Prashanti Hospital. As for the subjects in this study were employees of Wisma Prashanti Hospital. The subjects studied in this study were employee performance, motivation and compensation. The population of the study was all service staff at Wisma Prashanti Hospital consisting of nurses,

nutrition installations, midwives, and patients at Wisma Prashanti Hospital, which numbered 83 people. To test the hypothesis and produce a fit model (fit), this study uses Structural Equation Modeling (SEM) with a variance-based or component-based approach with Partial Least Square (PLS).

### 3. Results and Discussions

Following are the results of convergent validity testing of indicators of employee performance, motivation and compensation presented in Table 1.

Table 1  
Outer loading

	Original Sample (O)	T Statistics ( $ O/STDEV $ )
M1 <- Motivation	0.866	29.772
M2 <- Motivation	0.850	30.588
M3 <- Motivation	0.930	48.681
M4 <- Motivation	0.905	40.691
M5 <- Motivation	0.716	13.430
M6 <- Motivation	0.913	56.407
M7 <- Motivation	0.893	34.805
M8 <- Motivation	0.928	67.846
X1 <- Compensation	0.928	62.606
X2 <- Compensation	0.874	41.250
X3 <- Compensation	0.894	37.868
X4 <- Compensation	0.893	37.811
Y1 <- Performance	0.938	66.825
Y2 <- Performance	0.943	70.131
Y3 <- Performance	0.934	56.126
Y4 <- Performance	0.882	33.497
Y5 <- Performance	0.916	55.732

Data Primer, 2019

Based on Table 1 shows that the results of the indicator have an outer loading value of more than 0.5. The salary indicator is the strongest measure of the compensation variable because it has the highest outer loading value with a value of 0.928. Since all indicators already have an outer loading value of more than 0.5, it can be concluded that these four indicators are valid indicators for measuring compensation variables

The discriminant validity test method is comparing the square root of the average variance extracted ( $\sqrt{AVE}$ ) for each variable with the correlation between constructs and other constructs in the model. The model has sufficient discriminant validity if the AVE square root for each variable is greater than the correlation between constructs and other constructs in the model. The examination of discriminant validity in this study can be seen in the presentation of Table 2.

Table 2  
Discriminant validity

Variable	AVE
Employee Performance (Y)	0.852
Motivation (M)	0.770
Compensation (X)	0.806

Primary Data, 2019

Based on Table 2 above shows that the value of Average Variance Extracted (AVE) on employee performance has a value greater than 0.05 ( $0.852 > 0.50$ ). This also applies to the value of Average Variance Extracted (AVE) work

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motivation higher than 0.50 ( $0.770 > 0.50$ ). Likewise, the value of Average Variance Extracted (AVE) compensation is higher than 0.50 ( $0.806 > 0.50$ )

Endogenous variables in this study are employee performance (Y) and motivation (M). The coefficient of determination ( $R^2$ ) of each endogenous variable can be presented in Table 3.

Table 3  
*R-square*

Endogenous	<i>R-square</i>
Employee Performance (Y)	0.844
Motivation (M)	0.889

Primary Data, 2019

To measure how well the observation value is generated by the model and also its parameter estimation, it is necessary to calculate  $Q^2$  as follows:

$$\begin{aligned}
 Q^2 &= 1 - (1 - (R_1)^2) (1 - (R_2)^2) \\
 &= 1 - (1 - (0.844)^2) (1 - (0.889)^2) \\
 &= 1 - (0.156) (0.111) \\
 &= 1 - 0.017 \\
 &= 0.983
 \end{aligned}$$

The magnitude of  $Q^2$  has a value with a range of  $0 < Q^2 < 1$ , were getting closer to 1 means the model is getting better. The results of these calculations obtained  $Q^2$  value is 0.983, so it can be concluded that the model has a good predictive relevance ( $Q^2 = 0.983 > 0$ ).

Table 4  
*Path Coefficients*

Construct	Path Coefficient	<i>t-Statistics</i>	Description
Compensation (X) → Motivation (M)	0.943	43.188	Significant
Compensation (X) → Employee Performance (Y)	0.484	2.876	Significant
Motivation (M) → Employee Performance (Y)	0.450	2.741	Significant

Primary Data, 2019

Testing the effect of compensation on motivation is explained in Table 2 which shows that compensation has a positive and significant effect on motivation. This is indicated by the path coefficient of compensation to the motivation of 0.943 and the T-statistic value of 43.188. The value of T-statistic 43,188 is greater than 1.96 (T-critical), then hypothesis 1 which states that compensation has a positive and significant effect on motivation is acceptable. This means that increasing compensation can increase employee motivation at Wisma Prashanti Hospital.

Testing the effect of compensation on employee performance is explained in Table 2 which shows that compensation has a positive and significant influence on employee performance. This is indicated by the path coefficient of compensation to employee performance of 0.484 and T-statistic value of 2.876. The T-statistic value of 2.876 is greater than 1.96 (T-critical), then hypothesis 2 which states that compensation has a positive and significant effect on acceptable employee performance. This means that increasing compensation can improve employee performance at Wisma Prashanti Hospital.

Testing the effect of motivation on employee performance is explained in Table 2 which shows that motivation has a positive and significant influence on employee performance. This is indicated by the path coefficient of motivation to employee performance of 0.450 and T-statistic value of 2.741. The T-statistic value 2.741 is greater than 1.96 (T-critical), then hypothesis 3 states that motivation has a positive and significant effect on acceptable employee performance. This means that increasing motivation can improve employee performance at Wisma Prashanti Hospital.

Table 5  
Path Coefficient & VAF

Variable	Direct Effect		Description
	Coefficient	T Statistic ( O/STDEV )	
Compensation (X) → Motivation (M)	0.943	43.188	Significant
Compensation (X) → Employee Performance (Y)	0.484	2.876	Significant
Motivation (M) → Employee Performance (Y)	0.450	2.741	Significant
		Indirect Effect	
Compensation (X) → Employee Performance (Y) Variable	0.425	2.612	Significant
		Total Effect	
Compensation (X) → Motivation (M)	0.943	43.188	Significant
Compensation (X) → Employee Performance (Y)	0.909	46.087	Significant
Motivation (M) → Employee Performance (Y)	0.450	17.410	Significant
VAF → Indirect Effect/Total Effect (0.425/0.909)		0.467	

Primary Data, 2019

From the results of calculations in Table 3, it can be interpreted that the role of motivation as a mediator has a VAF value of 0.467 (46.7%). These results indicate that the motivation variable has a role as a mediator between compensation variables and employee performance. This shows if the more attractive salaries, incentives, benefits and facilities provided to employees, the more motivated employees to work well can improve employee performance. The hypothesis states that motivation acts as a mediator of the relationship between compensation and proven employee performance.

### 3.1 The Effect of Compensation on Employee Performance

The results of hypothesis testing prove that compensation has a positive and significant effect on employee performance. This shows that the higher the compensation given to employees of Wisma Prashanti Hospital, the higher the performance of the hospital employees, or conversely the lower the compensation given to employees, the lower the performance of employees at Wisma Prashanti Hospital. The results of the study indicate that compensation will help improve the hospital employee's performance. Compensation in accordance with the duties and responsibilities of employees, and in accordance with government regulations will be felt by employees, so as to improve employee performance.

Compensation measured based on salaries, incentives, benefits, and facilities are proven to be able to improve the performance of Wisma Prashanti Hospital employees as measured by indicators: quantity of work, quality of work, timeliness of completion of work, attendance and ability to work together. This finding can be interpreted that compensation given by employees is increased so that it will improve the performance of the employee. With good compensation in the company will have a positive impact on the company. If the employee gets compensation in accordance with what has been done in the company, then the employee will tend to do the best for the company. So, employees will try to maintain and even improve their performance in the company. This finding is in line with the theory used, namely hierarchical theory, the need for hierarchical theory of needs, namely the need for rewards. Is the need for self-esteem and recognition and appreciation of prestige from superiors and coworkers. If the employee gets the award, the employee will feel valued so that he can improve his performance.

This study supports the results of previous studies and is consistent with the results of research according to Hameed *et al.*, (2014); Muhammad & Abdullah (2016); Idris (2015); Allen & Der Velden (2001); Adeoti & Isaka (2006); Jamil & Raja (2012); Robinson (2005); Carlson *et al.*, (2006); Aktar *et al.*, (2012); Cris & Awonusi (2004), which show that there is a positive and significant influence between compensation and employee performance.

### 3.1 The Effects of Compensation on Motivation

The results of hypothesis testing prove that compensation has a positive and significant effect on motivation. This shows that the higher the compensation given to employees of Wisma Prashanti Hospital, the higher the motivation of

employees at work. Vice versa, the lower the compensation given to employees at Wisma Prashanti Hospital, the lower the motivation of employees to work at Wisma Prashanti Hospital.

These results indicate that high compensation given to employees and in accordance with the duties and responsibilities of employees have a real impact on the motivation felt by employees. Compensation that is appropriate and felt enough by employees is able to stimulate motivation in employees so that motivation is embedded in each employee so that employees are always motivated at work. Compensation is one of the important factors in attracting prospective employees, it can also be an encouragement and maintain old employees to improve their performance towards the company.

Compensation measured based on salary, incentive, allowance and facilities indicators is proven to be able to increase the motivation of Wisma Prashanti Hospital, which is measured by indicators: consistency in taking time of work, interesting work, self-confidence, responsibility for work, motivating mentor, showing results best, worries about work and training. This finding can be interpreted that if compensation at Wisma Prashanti Hospital is increased, it will be able to make a significant contribution to increase motivation for employees. This finding is supported by a hierarchical theory of needs, namely the need for appreciation. Is the need for self-esteem and recognition and appreciation of prestige from superiors and coworkers. If the employee gets the award, the employee can be motivated to work better.

This study supports some of the results of previous studies and is consistent with [Afful \(2012\)](#), research results ([John & Smith, 2014](#)). [Prapthekant \(2011\)](#); [Fairbank & Williams \(2011\)](#); [Eisenberger & Rhoades \(2001\)](#); [Nurchayani & Adnyani \(2016\)](#); [Negash et al., \(2014\)](#); [Rizal et al., \(2014\)](#), which show that there is a positive relationship and significant between compensation for motivation.

### *3.3 Effect of Motivation on Employee Performance*

The results of hypothesis testing prove that motivation has a positive and significant effect on employee performance. This shows that the higher the motivation felt by employees at Wisma Prashanti Hospital, the higher the employee's intention to improve performance. Likewise, on the contrary, the lower the motivation felt by employees, it indicates the lower the employee's intention to improve their performance. Motivation is a basic impulse that moves a person or desire to devote all his energy because of a purpose.

Motivation measured by indicators: consistency in time to take work, interesting work, self-confidence, responsibility for work, motivating mentors, showing the best results, worries about work and training proved to be able to improve the performance of Wisma Prashanti Hospital, measured by indicators: quantity of work, quality of work, timeliness of completion of work, attendance and ability to work together. This finding can be interpreted that if employee motivation increases, it will be able to make a significant contribution to improving employee performance. This finding is in line with the theory used, namely hierarchical theory, the need for hierarchical theory of needs, namely the need for rewards. Is the need for self-esteem and recognition and appreciation of prestige from superiors and coworkers. If the employee gets the award, the employee will be motivated to improve employee performance.

This study supports the results of previous studies and is consistent with the results of research conducted by [Marcahyono \(2012\)](#); [Musriha \(2011\)](#); [Anyim et al., \(2012\)](#); [Muogbo \(2013\)](#); [Chintaloo & Mahadeo \(2013\)](#); [Abdulsalam & Mawoli \(2012\)](#); [Zameer et al., \(2014\)](#); [Rizwan et al., \(2014\)](#); [Kiruja & Elegwa \(2013\)](#); [Dessler \(2003\)](#); [Khan et al., \(2013\)](#); [Leisink & Steijn \(2009\)](#), which show that motivation has a positive and significant effect on employee performance.

### *3.4 The Role of Motivation as a Mediation Effect of Employee Compensation and Performance*

The results of hypothesis testing prove that compensation has a positive and significant effect on motivation, motivation has a positive and significant effect on employee performance, and compensation has a positive and significant effect on employee performance with motivational mediation. These results indicate that motivation mediates the effect of compensation and employee performance. High compensation can affect employee motivation and the performance of Wisma Prashanti Hospital. High employee motivation also improves employee performance. This finding is in line with the theory used, namely hierarchical theory, the need for hierarchical theory of needs, namely the need for rewards. Is the need for self-esteem and recognition and appreciation of prestige from superiors and coworkers. If the employee gets the award, the employee will be motivated to improve employee performance.

The results of this study support some of the results of previous studies and are consistent with the results of research by Rini *et al.*, (2014); Gungor (2011), which shows that motivation mediates the effect of compensation on employee performance.

#### 4. Conclusion

To improve employee performance, compensation should be paid more attention to the company, because based on the results of research that the compensation variable has a large influence on employee performance. Referring to respondents' perceptions of compensation, leaders should always give encouragement to employees in the form of benefits so they can motivate employees. Because in this case, the allowance is most dominant in forming a compensation construct. Motivation can mediate partially the relationship between compensation to employee performance, so it is recommended to managers to further increase motivation for employees because it can improve employee performance. Future research is to consider other factors that influence employee performance such as job satisfaction, OCB and leadership as well as other mediating variables that influence the relationship between compensation and employee performance. In addition, this study can also expand the research orientation within a larger organization or wider population, conducting research on companies in other regions so that the findings of this study may be different compared to research in other regions.

#### *Conflict of interest statement*

The authors declared that they have no competing interest.

#### *Statement of authorship*

The authors have a responsibility for the conception and design of the study. The authors have approved the final article.

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