

## **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.

**Keyword:** Compensation, Employee Performance, and Job Satisfaction

### **Introduction**

In the era of technology and information, an organization is more concerned with human resource issues in its development period, or more specifically on improving the quality of human resources as a central point for the organization or company.

Human resources are one of the important factors of several other factors of production. Humans are seen as a factor of production that has very different characteristics compared to other factors of production. The success of a company or organization is largely determined by the quality of its human resources and is supported by several other production factors.

Therefore, it is necessary to develop an atmosphere that can evoke the active and dynamic role of the workforce. Humans are the implementers who determine the success of a business and also objects that are expected to enjoy the results of the business, activities that increase from improving welfare, the same thing is

also felt by PDAM "Delta Tirta", that humans are currently considered useful because they increase technological development will force the company to adjust the quality of work as a major requirement so that the needs in the technology sector can be maximized for the company's success, of course, will provide an offer that is comparable to compensation.

Compensation is an imbalance provided by the company, for its services in carrying out tasks (Mondy & Robert, 1993). Therefore, the compensation needs provided by the company can satisfy various employee needs fairly, if the company pays less attention to the compensation that employees receive. not in accordance with the work they do, then directly employee satisfaction cannot be fulfilled, on the contrary if the compensation is in accordance with the needs and the work they do, employee satisfaction can meet the desired expectations so that work performance employees can increase.

Therefore, a person's job satisfaction basically depends on the difference between expectations, needs or values with what according to his feelings or perceptions he has obtained or achieved through his work. Employees who get satisfaction by themselves will do a good job, because so far the problem of human resources or employees owned by PDAM Sidoarjo has not been able to show their work performance well, or it can be said not to have been from the results of achieving the performance of PDAM Sidoarjo employees in the period 2002-2012. 2006 did not meet the standard of achieving good work performance, while the desired standard of achievement of work performance set by PDAM Sidoarjo was 76-100%, therefore, the objectives of this study, among others:

- 1) To examine the effect of compensation on employee work performance.
  - 2) To examine the effect of compensation on employee job satisfaction.
- To examine the effect of job satisfaction on employee work performance.

### **Literature Framework**

The rapid development experienced by management both as a scientific discipline and as a work method has forced the people involved in it to start thinking about productivity, efficiency and various technical tools that will lead the company towards improvement.

Humans are the most important resource in an organization to achieve success, if it is not balanced with appropriate compensation in return for the activities carried out.

Simamora (Simamora, 2003), states that compensation includes financial returns and services as well as benefits received by employees as part of the employment relationship. Compensation is often also called an award and can be

defined as a form of appreciation given to employees in the form of remuneration for their work performance (Handoko, 2005).

Notoatmodjo (Notoatmojo, 1998), states that the provision of adequate compensation is an organizational award for the performance of its employees, while Siswanto (Siswanto, 2003), that compensation is a service reward or remuneration provided by the company to workers for good work performance, because the workforce has contributed energy and thoughts for the progress of the company in order to achieve the goals that have been set. Rivai (Rivai, 2002), that compensation is defined as something that employees receive as a substitute for their service contribution to their performance.

Based on the definition of compensation above, it can be concluded that the provision of compensation is a service reward provided to employees in the form of wages and salaries, awards (bonuses and allowances) in the form of benefits (benefits) and services (services) that are provided directly to the work performance they have achieved. Therefore, the hypothesis proposed in this study, as following below;

H1: Compensation has a positive effect on employee work performance

Compensation is given based on company policy to all employees as an effort to improve welfare and satisfaction for their work, however, if an employee is dissatisfied with the compensation he receives, it will result in an increase in turnover or a decrease in one's working capital to do work. On the other hand, the compensation received is in accordance with the wishes of the employee.

Handoko (Handoko, 2016), that the award is felt to be fair and adequate, then employee job satisfaction will increase because they will receive an award in proportion to their work performance.

Martoyo (Martoyo, 2005), that one of the factors that allows the growth of job satisfaction is the proper and fair arrangement of compensation for employees. Compensation is important for employees as individuals because the amount of compensation reflects the value of their work among the employees themselves, their families, and the community, thus with Notoatmodjo (Notoatmojo, 1998), that compensation is very important for the employees themselves as individuals, because the amount of compensation is a reflection or measure of value. the employee's own job. On the other hand, the size of the compensation can affect the work performance, motivation and job satisfaction of employees.

Based on the theories above, it can be concluded that compensation has an effect on employee job satisfaction, if the compensation given is in accordance with employee expectations, an employee will feel satisfied with the compensation for services provided, so the hypothesis proposed in this study which stated that;

H2: Compensation has a positive effect on employee job satisfaction

Job satisfaction achieved by employees is the result of the strength of belief in a treatment followed by specific results. This illustrates that employee satisfaction which allows achieving a result can lead to higher achievement results, however, employee satisfaction depends on whether or not the needs of employees are met. So, employees will feel satisfied if the results of their work are in accordance with the interests and needs that are expected to be fulfilled.

Handoko (Handoko, 2005) employees who do not get job satisfaction will never reach maturity, such employees often daydream, have low morale, get tired and bored quickly and do activities that have nothing to do with the work to be done. Meanwhile, employees who get high satisfaction have a better attendance record, have better work performance, and have high morale than employees who do not get job satisfaction.

Armstrong (Armstrong, 1987) previous research, stated that the relationship between job satisfaction felt by an employee and his work performance is a positive relationship, theoretically job satisfaction is often associated with job performance because the achievement of job satisfaction is expected to lead to an impetus for the workforce to improve work performance, while Luthans (1998), in his best conclusion regarding satisfaction and performance is because there is a definite relationship in it, but maybe not as big as conventional wisdom which assumes employees who feel happy as productive employees.

Mangkunegara (2001), states that job satisfaction is a feeling that supports or does not support employees related to their work and their conditions, thus it is further concluded that job satisfaction can be useful in improving employee work attitudes to produce higher work performance for the work done. . The emergence of a change in employee attitudes is a sign of a change in job satisfaction.

Furthermore, Mangkunegara (2001), also suggests measuring employee job satisfaction through areas, namely working conditions, supervision, wages and salaries, promotions, and co-workers, as well as Hariandja (2002), suggests the dimensions of measuring employee job satisfaction through salary, the work itself (type of work), leadership, promotion (career development), co-workers and working conditions, while Syarif (1997) suggests measuring employee work performance through quality (smoothness, cleanliness, thoroughness), amount of time (speed), number of types of work ( number of skills), number of types of tools (skills in using various tools), knowledge of work, as well as Dharma (Tintri, 2002), suggests a way of measuring work performance by considering: quantity, quality, timeliness. Therefore, the third hypothesis proposed in this study is;

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

## Research Methodology

The population in this study were all employees at PDAM "DELTA TIRTA" Sidoarjo as many as 363 employees, while the sampling used stratified random sampling, where the number of samples used was 110 employees or based on the number of indicators multiplied by 10, while the types of data that can be used consists of primary data (obtained directly by the subject) and secondary data (about the object under study), besides that the data sources are obtained from primary and secondary data. Likewise, data collection can be done through observation, distributing questionnaires, interviews and from documentary data, and using SEM (Structural Equation Modeling) analysis techniques.

## Result and Discussion

### Analysis Test Result

The results of the analysis and hypothesis test in this study can be shown through:

#### *a. Multivariate Outlier Test*

*The Multivariate Outlier test* was carried out using the Mahalanobis Distance (MD) criterion at the level of  $p < 0.001$  (= 0.1 %), then the results of the multivariate outliers test showed the value of multivariate distance [MD] = 39.431 (maximum), meaning that there were multivariate outliers [between variable] because the maximum MD is  $39,431 > 31,264$  [ $\chi^2$  table ]. Thus, it can be concluded that there is one case of multivariate outliers in the data which causes extreme values to appear in the analysis results while another data is not considered as an outlier, therefore one of these outlier cases can reduce the number of respondents in the next analysis.

#### *b. Multicollinierity and Singularity test*

Testing on the symptoms of multicollinearity and singularity between independent variables indicated that there are no multicollinearity symptoms that damage the model, as can be seen from the determinant of the sample covariance matrix of  $4.277.491.756 > 0$  which indicates that there is no multicollinearity or singularity in this data, so the assumptions are fulfilled..

#### *c. One Step Approach Model Evaluation - Modification to SEM*

The results of the analysis of the model modification index used as an estimate can be seen in the following figure:

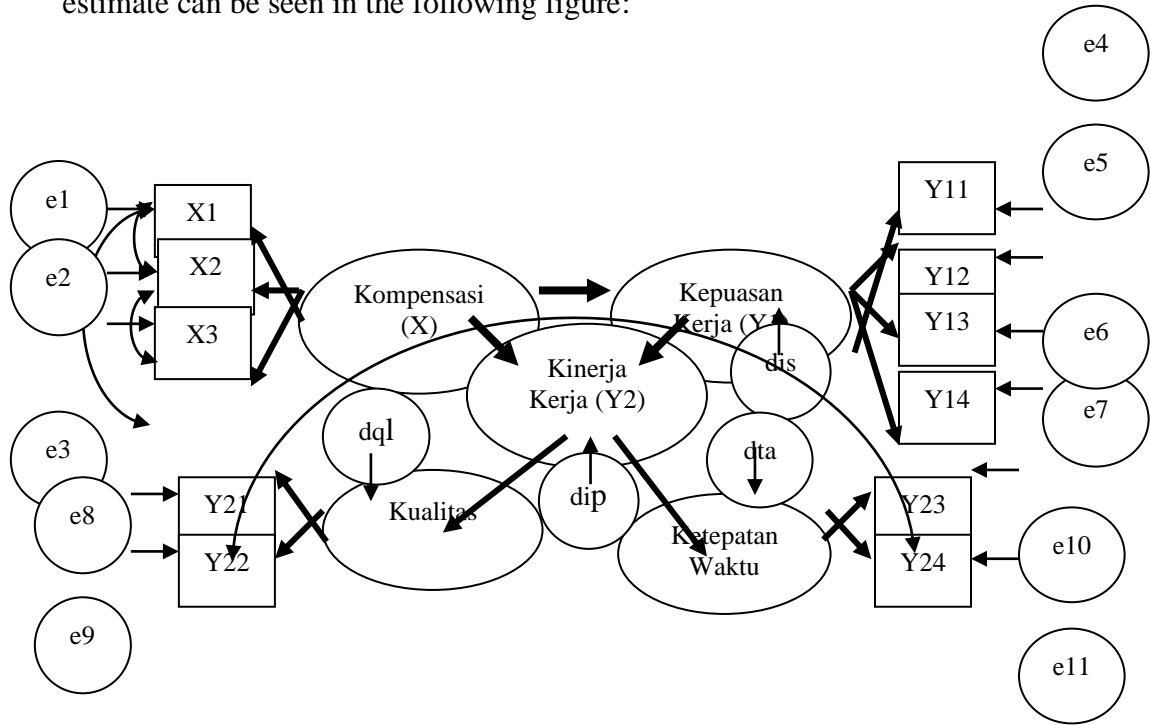


Figure 1 : Structural Measurement Model

The results of the analysis of the modification of the model as above, it can also be seen that the relationship between the residual variable indicators for estimation can be seen in table 1 of the results of the analysis of the following modification of the model;

Table 1 : Model Modification Analysis Results

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 Goodness of Fit Indices can be seen in table 2. As following below:

Table 2: Evaluation of Goodness of Fit Indices Criteria

Criteria	Result	Critical Value	Model Evaluation
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Cmin/DF	0,805	$\leq 2,00$	Good
Probability	0,799	$\geq 0,05$	Good
RMSEA	0,000	$\leq 0,08$	Good
GFI	0,953	$\geq 0,90$	Good
AGFI	0,919	$\geq 0,90$	Good
TLI	1,016	$\geq 0,95$	Good
CFI	1,000	$\geq 0,94$	Good

Source: Primary Data

From the results of the evaluation of the modified one step approach model in table 2 above, it turns out that of all the goodness of fit criteria used, all of them show good model evaluation results, meaning that the model is in accordance with the data. That is, the conceptual model developed and based on theory has been fully supported by facts. Thus the model is the best model to explain the relationship between variables in the model.

d. Causality Hypothesis Test

Testing the causal hypothesis can be done that the model used can be accepted or related to the data. To test the hypothesis of a causal relationship between compensation (X), job satisfaction (Y), and performance (Z) developed in this model, it is necessary to test the null hypothesis which states that the regression coefficient between the relationship is equal to zero through a t-test which is identical to the value of CR (critical ratio) with probability as a consideration between the causality relationship presented in the model can be accepted or rejected. This can be seen in table 3 below:

Table 3: Parameter Estimation

Regression Weights				
Factor	← Factor	Ustd. Estimate	Std. Estimate	Prob
Work Perf	← Compensation	0,793	1,886	0,145
Work Perf	← Job Satisfaction	-3,480	-1,630	0,303
Job Satisfaction	← Compensation	0,187	0,947	0,011
Significance Limit				$\leq 0,05$

Source: Primary Data

Judging from the level of Prob. The direction of the causal relationship, then the hypothesis which states that:

- a. The compensation factor has no significant effect on work performance factors, meaning that the null hypothesis is accepted and the alternative hypothesis cannot be accepted (rejected) because Prob. the causality is  $0.145 > 0.05$  with a positive direction.
- b. The job satisfaction factor has no significant effect on work performance factors, meaning that the null hypothesis is accepted and the alternative hypothesis cannot be accepted (rejected) because Prob. the causality is  $0.303 > 0.05$  with a negative direction.
- c. The compensation factor has a significant effect on job satisfaction, meaning that the null hypothesis is rejected and the alternative hypothesis is accepted (acceptable) because Prob. the causality is  $0.011 < 0.05$  with a positive direction.

## Discussion

The results of this study prove that the compensation factor has not shows any results that have non-significant effect on employee work performance, this right is because the compensation factor for PDAM employees has not been able to fully increase activities for the work carried out to produce high performance, meaning these results are not influenced by the level of bonuses, allowances and salaries that are standard with work and skills possessed, so there needs to be consideration for companies including the role of leaders who are considered unable to encourage compensation as a tool to be able to improve work performance and employee job satisfaction. The results of this study reject Rivai's (2005) theory.

Likewise, the results of the analysis of this study indicate that the job satisfaction factor which is said to have no significant effect on the work performance of PDAM employees, this is of course related to the attitude of employees who have not been able to review the work done, so it is necessary to receive special consideration and handling of matters which causes no significant effect on employee work performance so that this result cannot guarantee to be able to improve employee work performance in completing a job well but on the contrary has decreased. Of course there are things that must be paid special attention to so that employees can accept and from the leadership of the company also want to accept what is desired, needed and the willingness of employees to conform in carrying out their work. This really depends on the company leadership to pay more attention, always interact to find out the complaints experienced by employees and future insights for the employees themselves and the company. The results of this study reject the results of the study of Armstrong (1987), while the results of this study also prove that the results of causality of



compensation on employee job satisfaction show results that have a significant effect in a positive direction. The results of this significant effect in a positive direction are because PDAM employees are satisfied with the company's compensation, besides the amount received by employees and the amount received by other people or fellow co-workers do not show a difference, so they feel that the amount received is equivalent, so causes them to feel satisfied, meaning that compensation affects employee job satisfaction and acts as feedback that allows them to adjust to their later behavior. The results of this study reject the theory of Martoyo (1998).

### **Conclusion**

The results of this study have proven that the provision of compensation has no significant effect in a positive direction on employee work performance, the results are unacceptable (rejected).

The results of this study have proven that job satisfaction has no significant effect in a negative direction on employee work performance factors, the results are unacceptable (rejected).

The results of this study have proven that the provision of compensation has a significant positive effect on job satisfaction factors, the results are accepted (acceptable).

### **Suggestion**

The implications of the results of this study are taken into consideration to be used as decision making for the leadership of PDAM "DELTA TIRTA" Sidoarjo, namely: leaders need to evaluate the provision of compensation that can be used to improve employee work performance, besides that leaders also need to pay attention to the relationship between job satisfaction with the work performance of employees who are considered to be able to change and improve employee work performance for the better, and company leaders should be able to maintain the provision of compensation that is able to provide employee job satisfaction, this is because job satisfaction can provide an overview to employees regarding the level of employee job satisfaction in the company

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