



## The Effect of Indirect Compensation on Employee Performance: Case Study at The Khayangan Dreams Villas, Bali, Indonesia

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### Abstract

This study was conducted to identify the effect of indirect compensation on employee performance at The Khayangan Dreams Villas Bali. The research data were collected through questionnaires, interviews, and documentation studies. The research population was the whole 36 employees of The Khayangan Dreams Villas Bali. The amount of the samples was determined with saturated sampling for the sampling method. The data were analyzed using the validity test, reliability test, simple linear regression, t-test, and determination coefficient test assisted by the SPSS 23 version program for Windows. According to the findings, the paid vacation program received the lowest score in the indirect compensation criteria, and the ability in employee performance received the lowest score. To improve these features, it is advised that an evaluation of the paid vacation program be conducted, as well as the creation of employee performance indicators for Khayangan Villas' personal use.

### Keywords

indirect compensation; employee performance; villa

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## 1. INTRODUCTION

Bali is one of islands in Indonesia that the economy relies on tourism sector (Yuniti et al, 2020). The emergence of Covid-19 pandemic has significantly affected the stability of Bali's economy and tourism industry (Japutra and Situmorang, 2021). The local government mentioned that Bali is now at its worst condition because of the services oversupply which is caused by the low number of tourists' visit (Yuniti et al, 2020). This condition has a big impact on

tourism employees especially can threat employee's compensation as wages for their performance (Agrawal, 2021). Tourism employees become a dilemma and decrease performance significantly because ambiguity of compensation that employee will receive. Basically, everyone who works wants to get fair compensation, therefore bad compensation system can decrease employee performance (Tridayanti and Brasilio, 2020).

Employees performance has significant effects in determining the achievement of company's goal. Due to its significant effects, many companies and organizations make efforts to improve the employee performance with the aim of accomplishing companies' goal (Tridayanti and Brasilio, 2020). The company has to always pays attention and maintains employee performance because poor performance can cause problems in the company (Andriana, 2019). One of tourism industries that has issues with employee performance is The Khayangan Dreams Villas Bali.

According to previous study, employee performance can be quantified by dimensions such as task performance and contextual performance (Chei et al., 2014). The quality of employee performance in accordance with contextual performance dimension can be seen through employee attendance rate (Chei et al., 2014). Based on employee attendance recapitulation data showed that finance department, housekeeping and front office at The Khayangan Dreams Villas Bali lack of employee's presence, it indicated that there were employee performance problems in those departments. In addition to the level of attendance, the management of The Khayangan Dreams Villas Bali in assessing the performance of its employees set 10 subjects that were used as references in evaluating employee performance. Based on an initial conversation with the Human Resources Manager, the 10 subjects consisted of honesty, product knowledge, creativity and innovation, discipline, quality of work, working relations, cooperativeness, consistency, ability, and grooming. As indicated by the data, there were 5 performance subjects decrease value every year and ability of employee obtained lowest score. Performance appraisal at The Khayangan Dreams Villas Bali can also be seen through performance appraisal of each department which was recapitulated throughout the year. As shown by recapitulation of employee performance appraisal, 6 out of 8 departments showed fluctuations and impairments. These phenomena indicated that there occurred employee performance problems.

Employee performance is influenced by several factors, including primary and secondary factors. The primary factor is the influence of individual factors, such as intrinsic, motivational, proactive, adaptability, skill flexibility, and commitment. While secondary factor is the influenced by environmental factors, such as working space conditions, work time, rest

time, wages, organizational form, social and family environment (Chatzoglou and Diamantidis, 2019). Based on a variety of factors that influence employee performance, the most noticeable factor that significantly affect the employee performance is the compensation system. Compensation is also considered as the key factor that encourages employees to advance their performance (Nguyen et al, 2020).

According to the initial interview with the Accounting Manager, two types of compensation were provided: direct compensation and indirect compensation. During pandemic situation, providing direct compensation was rather difficult to be implemented so that it was facilitated by providing indirect compensation as an alternative to maintain employee performance (Sri et al, 2020). According to Accounting Manager, Indirect compensation can be extremely beneficial to employees. Health insurance is a part of indirect compensation that is thoroughly beneficial especially during the pandemic situation in case the employees urged for medical care.

Indirect compensation is considered very important not only in pandemic situations, but also because it influences individual welfare in the organization (Suwendra et al, 2020). Indirect compensation seeks to attract and retain high-potential employees, who are then used as strategic resources to boost company performance (Ahmed, 2014). There are some previous researches indicated that indirect compensation brings an influential effect on employee performance. The first study, conducted by Sri et al (2012), demonstrated that indirect compensation has a real effect on employee performance. Ahmed (2014) conducted another study that demonstrated the positive impact of indirect compensation on employee performance. Furthermore, Lestari et al (2020) found that indirect compensation had a positive effect on employee performance.

Indirect compensation program in The Khayangan Villas included social security, workers compensation, retirement plans, paid holidays, paid vacations, and other benefits. Based on employee interviews, as it was stated the indirect compensation that is provided by the management is good, however, it needs improvement in its implementation. The employees said that there remains things which needed to be improved for instance information system regarding to indirect compensation program, paid vacation program which did not well-implemented, and addition of supporting facilities. Indirect compensation is the factor that can encourage the improvement of individual's performance (Supratman et al, 2021). Employees who obtain proper indirect compensation tend to be able to survive in a company or organization and have self motivation to improve performance in accomplishing the company's vision and mission (Zhang, 2018).

Based on the findings of the background study, the researcher planned to conduct additional research at The Khayangan Dreams Villas Bali to look into the impact of indirect remuneration on employee performance.

## 2. RESEARCH METHOD

This study uses a quantitative research design that the primary data were obtained from survey results. In this research, the independent variable is indirect compensation (X). Dependent variables are defined as variables that are affected by independent variables (Sugiyono, 2017). The dependent variable is the employee performance (Y). The primary theory employed in this study for indirect compensation indicator is by Byars and Rue in Ahmed (2014), while for employee performance indicator is by Chei et al., (2014).

All employees of The Khayangan Dreams Villas Bali were used as the population of the study. The sampling method used in this study was saturated sampling. Based on saturated sampling method, the number of samples in this study were 36 samples, which was all of employee in The Khayangan Dreams Villas Bali. Validity tests, reliability tests, simple linear regression, t-tests, and determination coefficient tests were used to analyze the data with the help of SPSS version 23 for Windows.

## 3. RESULT AND DISCUSSION

### 3.1 Results

#### Demographic Information

Table 1. Demographic Information of Survey Respondents

	Demographic	Frequency	Percentage
Age	• <20	0	0
	• 20-30	15	41,7%
	• 31-40	12	33,3%
	• 41-50	6	16,7%
	• >50	3	8,3%
Gender	• Male	16	44,4%
	• Female	20	55,6%
Academic Level	• Senior High	20	55,6%
	• Diploma	12	33,3%
	• Bachelor	4	11,1%
Work Period	• 1-10 years	25	69,4%
	• >10 years	11	30,6%

Table 1 presents the respondents demographic information. According to age characteristics, respondents aged 20 to 30 years account for 15 individuals (41.7%), followed by respondents aged 31 to 40 years (12 people (33.3%), respondents aged 41 to 50 years (6 people (16.7%), and respondents aged more than 50 years (3 people) (8.3%). In terms of gender characteristics, the number of female respondents is more than the number of male respondents, with 20 female respondents (55.6%) compared to 16 male respondents (44.4%). According to the most recent educational characteristics, the number of respondents with the most recent SMA / SMK education is the highest, at 20 people (55.6%), followed by respondents with the most recent Diploma education, at 12 people (33.3%), and respondents with the most recent bachelor education, at 4 graduates (11.1%). Based on the features of the working time, it appears that there are 11 people (30.6 %) with a working period of more than 10 years and 25 people with a working period of 1 to 10 years (69.4 %).

### Hypothesis Test

#### Classic Assumption Test (Pre-test)

Classic assumption test is prerequisite to qualify the quality of data before conducting regression analysis in cause-effect research. Therefore, the test of normality and heteroscedasticity were used in this research by displaying the following results.

#### Normality Test

Normality test is used to find out the regression model of the independent variable and the dependent variable has a normal distribution, using One Sample Kolmogorov Smirnov shows significance (Sig.) value of >0.05 is normally distributed (Gozhali 2016).

Table 2. Normality Test Result  
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		36
Normal Parameters <sup>a,b</sup>	Mean	,0000000
	Std. Deviation	2,89881554
Most Extreme Differences	Absolute	,142
	Positive	,065
	Negative	-,142
Test Statistic		,142
Asymp. Sig. (2-tailed)		,064 <sup>c</sup>

a. Test distribution is Normal.  
b. Calculated from data.  
c. Lilliefors Significance Correction.

The result of the normality test using Kolmogorov-Smirnov shows Asymp significance value. Sig (2-tailed) is  $0.064 > 0.050$ , means that the residuals of the data in this research are normally distributed.

### Heteroscedasticity Test

Heteroscedasticity test is used to provide detailed figures to confirm the data processed poses any heteroscedasticity. A good regression model is indicated when homoscedasticity present in the model (Ghozali, 2018). The parameter coefficient value for the independent variable should have value sig.  $> 0.05$  for the regression model to have homoscedasticity.

Table 3. Heteroscedasticity Test Results

Model	Coefficients <sup>a</sup>				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	8,421	4,510		1,867	,071
Indirect Compensation	-,090	,068	-,221	-1,324	,194

a. Dependent Variable: Abs\_RES

The assumption of heteroscedasticity using Glejser method identified the value sig.  $0.194 > 0.05$ . Thus, the regression model in this research is homogenic or do not contain heteroscedasticity.

### Data Analysis

Calculation of data analysis using statistics SPSS version 23 for Windows. The data analysis consisted of simple linear regression, T Test, and coefficient of determination.

### Simple Linear Regression Analysis

Table 4. Simple Linear Regression Test Results

Model	Coefficients <sup>a</sup>				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	22,270	9,045		2,462	,019
Indirect Compensation	,668	,137	,642	4,879	,000

a. Dependent Variable: Kinerja Karyawan

Simple linear regression analysis was performed to examine how well job indirect compensation predicts employee performance. The constant value is 22.270, and the indirect compensation regression coefficient is 0.668, according to the results of basic linear regression analysis. As shown by Table 4 the regression equation is obtained as follows:

$$Y = 22,270 + 0,668 X$$

**t-test**

The t-test is a regression coefficient test used to identify whether the independent variable (X) influences the dependent variable (Y) (Sunyoto, 2013). The indirect compensation (X) t-value was 4.879, which was more than the t-table, which was 1.689 with a substantially less than the value (0.000<0.05), therefore Ho was rejected and Ha was accepted based on the t-test findings. With a 5% error rate, a 95% confidence level, and 35 degrees of freedom, it reveals that indirect remuneration has a considerable impact on employee performance at The Khayangan Dreams Villas Bali.

**Coefficient of Determination Test**

The coefficient of determination is used to measure the ability of the model in explaining the diversity of dependent variables (Ghozali, 2018).

Table. 5 Coefficient of Determination Results

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,642 <sup>a</sup>	,412	,394	2,94114

a. Predictors: (Constant), Indirect Compensation

b. Dependent Variable: Kinerja Karyawan

Based on the coefficient of determination test results, the R square value is 0.412, indicating that independent variables can explain 41.2 percent of the dependent variable (0.412 x 100%), with the remaining 58.8 percent (100%-41.2%) explained by variables not used in this study. According to Gozhali (2013), the coefficient determinant is moderate if the determination coefficient interval is between 40% and 59.9%. With a coefficient determinant of 41.2% in this study, it can be concluded that the independent factors have a moderate effect on the dependent variable.

### 3.2 Discussions

To provide an overview of the research variables, descriptive statistic analysis was used to calculate the average score (mean) of each variable's respondent's assessment on statement items. The mean score of each indicator for both variables is shown in Table 6.

Table 6. Mean Score of Indirect Compensation and Employee Performance

Dimension	Mean Score	Dimension	Mean Score
Indirect Compensation (X)		Employee Performance (Y)	
Social Security	4.79	Task Performance	4.76
Workers' Compensation	4.75	Contextual Performance	4.79
Retirement Plans	4.83		
Paid Holidays	4.86		
Paid Vacation	4.24		
Other Benefits	4.74		

Table 6 shows that there are a total of 8 indicators that produce 8 mean values for both variables. There are six indicators for indirect compensation and two indicators for employee performance. There are a total of 28 statements on the online questionnaire, representing 8 indicators for both variables. The indicators used in Ahmed (2014) are based on Byars and Rue, as well as Chei et al (2014). There are 14 statements for indirect compensation and 14 statements for employee performance. The statements are then presented to the respondents, who rate them from 1 (Strongly Disagree) to 5 (Strongly Agree) (Strongly Agree). After that, the data is calculated using Mean Score and Interval Class. The outcome shows that the lowest score for variable X is criteria 5, and the highest score for variable Y is criteria 1. It indicated that paid time off and task performance needed to be improved.

To delve deeper into the dimensions of indirect compensation and employee performance, the questions that represented this variable were presented in Tables 7 and 8, as shown below.



Table 7. Indicator Indirect Compensation Dimension

Indicator	Mean Score
<b>Social security</b>	
Health insurance provided by the company is in accordance with established standards.	4.83
Work accident insurance provided by the company is in accordance with the risks of the job.	4.75
<b>Workers' Compensation</b>	
I will get compensation in case of work accident.	4.69
The amount of compensation in the event of a work accident is in accordance with the mutual agreement.	4.81
<b>Retirement Plans</b>	
I get a pension plan.	4.83
Pension fund program provided in accordance with government regulations.	4.83
<b>Paid Holidays</b>	
I get the number of days off according to government regulations.	4.86
During my vacation, I still get a salary according to company standards.	4.86
<b>Paid Vacation</b>	4.31
Appreciation day program is given in accordance with the program set by the company.	4.17
Reward voucher is given in accordance with the program set by the company.	
<b>Others Benefit</b>	4.64
The meal allowance provided is in accordance with company standards.	4.83
Employee uniform is comfortable to wear while working.	4.72
The lockers provided can be used conveniently.	4.78
The parking space provided can be used comfortably.	

The statement that had gained the most value based on the research results related to the indirect compensation variable was "I get the number of days off according to government regulations and during my vacation, I still get a salary according to company standards". The majority of the employees at The Khayangan Dreams Villas Bali stated that employees get a paid holiday program fairly and in accordance to the government regulations. The company provided paid holiday benefits to employees to eliminate employee fatigue during work and provides reward for employee performance (Ahmed, 2014). On the other hand, the lowest average statement was "Reward voucher is given in accordance with the program set by the company". That Indicated that employees rarely got reward vouchers for their achievement, causing employees not being enthusiastic to give their best performance. Reward voucher was given by the company to employees as a reward for performance and encourage employees to improve their performance (Sri et al, 2020).

Table 8. Indicator Employee Performance Dimension

Indicator	Mean Score
<b>Task Performance</b>	
I understand job duties.	4.75
I understand job responsibilities.	4.81
I complete assignments to the level of proficiency required by company.	4.44
I can be relied on to carry out superior's instructions.	4.81
I carry out my job responsibilities properly.	4.44
I carry out work responsibilities efficiently.	4.75
<b>Contextual Performance</b>	
I comply with working hours set by company.	4.89
I always follow the rest time procedures as set.	4.83
I can carry out work tasks independently.	4.78
I am able to take on extra work on my own initiative.	4.83
I quickly adapt to new assignments.	4.67
I show a positive attitude at work.	4.72
I am able to improve cooperation with supervisors.	4.83
I am able to improve cooperation with co-workers.	4.78

The statement that had gotten the highest score in the employee performance variable was "I comply with working hours set by company". It indicated that employees at The Khayangan Dreams Villas Bali complied with company's work time regulations. Employees who consistently comply with the company's working hours would ensure the smooth execution of tasks, so that the company's achieved the targets optimally (Chatzoglou dan Diamantidis, 2019). Additionally, the lowest average statements was "I complete assignments to the level of proficiency required by company and I carry out my job responsibilities properly". Employees believed they were less able to work according to corporate standards and had not been able to complete their obligations adequately based on the lowest average. Human resources have to be capable of ensuring that the output produced met or exceeded predefined quality standards and was delivered on schedule (Lewiuci, 2016).

Employee performance at The Khayangan Dreams Villas Bali was found to be significantly influenced by indirect compensation in this study. It evidenced by the t-test where the t-value of indirect compensation (X) is 4.879 with a significance of  $\leq 0.000 < 0.05$ . The  $\beta$  value of indirect compensation is 0.668, which indicated that if the indirect compensation increased by one unit, while other variables were constant, employee performance increased by 0.668. Broadly speaking, the formulation of the problem had been solved under the hypothesis that had been proposed. Indirect compensation had a moderate influence on employee performance. The indirect compensation variable had

a moderate contribution of 41.2% to employee performance, according to the coefficient of determination test, and the remaining 58.8% was influenced by other variables not employed in this study. The findings of this study are consistent with those of previous research Ahmed (2014), Sri et al., (2020), and Brasilio and Tridayanti (2020) which stated that indirect compensation has a significant effect on employee performance. It indicated that when indirect compensation increases, employee performance also increases.

#### 4. CONCLUSIONS

Based on data analysis result, indirect compensation (X) has a significant positive effect on employee performance (Y) at The Khayangan Dreams Villas Bali which can be proven by a significance value of  $0.000 < 0.05$  with a value of  $t\text{-count} > t\text{-table} = 4.879 > 1.689$ . Moreover, the coefficient of determination analysis result proved that indirect compensation had a moderate effect of 41.2% on employee performance, while the remaining 58.8% was influenced by other factors outside of this study.

Based on the research results obtained, then surely there are some suggestions for decision-makers at The Khayangan Dreams Villas Bali that consisted of management needs to improve several programs of indirect compensation that have not run optimally such as voucher reward program and supporting facilities. Management should still provides reward vouchers to employees who are able to achieve targets to motivate for improve their performance. Management can also conduct an appreciation day program to recognize employee's hard work by inviting them to annual event. Supporting facilities such as lockers, parking lot, and rest areas need to be improved. In addition, management can also add other supporting facilities by providing health and fitness facilities for employees. Hopefully these can increase employee enthusiasm for work. It is important to evaluate the effectiveness of implementation indirect compensation program, by asking for feedback from employees regarding the program that has been running so far. Henceforth, management can get references to improve program implementation in the next period.

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