Original Article

The Effect of Compensation and Organization Culture on Employee Performance: Mediating Role of Work Motivation

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Abstract: In today's corporate environment, fostering high employee performance is crucial for organisational growth. Companies must enhance performance within their operations by utilizing various resources, including natural, financial, human, scientific, and technological assets. These resources provide the energy, strength, and power needed to generate momentum and activity. Exceptional employee performance is essential for achieving desired outcomes. This study explores the impact of compensation and organisational culture on employee performance, with work motivation as an intervening variable at PT. Panen Lestari Indonesia (East Java Surabaya). A quantitative approach was adopted, collecting data through observation, interviews, and questionnaires from 73 employees. The analysis employed the Partial Least Square (PLS) methodology. Results show that compensation and organisational culture significantly affect employee performance via work motivation, which mediates these effects. The study underscores the importance of integrating compensation and supportive organisational culture to enhance employee performance, highlighting work motivation as a key mediating factor. These findings provide practical implications for managers and HR professionals, suggesting that improving employee performance requires considering the interplay between compensation, organisational culture, and work motivation.

Keywords: Compensation; Organization culture; Employee performance; Motivation

1. Introduction

The business world is currently required to create high employee performance for development (Cascio, 1995; Jehanzeb & Bashir, 2013; Mkamburi & Kamaara, 2017; Wirtenberg et al., 2007). An organization or company must be able to build and improve performance in its environment (Gephart & Van Buren, 1996; McGill & Slocum, 1994; Zacharias et al., 2021). To achieve this goal, every organization or company needs resources. Resources are a source of energy, power, and the force necessary to create power, movement, activity, and action. These resources include natural resources, financial resources, human resources, scientific resources, and technological resources. To get a goal desired by each company, high employee performance is needed by the organization or company. The more companies have employees with a high work ethic; the overall productivity of the company will increase, so that the company can survive the competition. Efforts to improve employee performance, of course, the company can take several ways including, namely, providing compensation, creating a good organizational culture, and providing

motivation. These three variables affect the performance of an employee and lead to the achievement of the targets of a company.

PT Panen Lestari Indonesia is a large retail company that is quite well-known among the public. There are several branches spread across several cities in Indonesia. One of them is in the city of Surabaya. Based on the historical record of PT Panen Lestari Indonesia, located in the city of Surabaya, it was established in 2001 and has survived until now. In addition, PT Panen Lestari Indonesia also experienced an increase in sales every year. However, since the current pandemic, sales have declined, and the company's revenue continues to decrease. After conducting a field survey and conducting an interview session with an HR manager at the company, several phenomena occurred in the company that caused the decline in performance, namely the loss of employee enthusiasm at work because they found a decrease in compensation, so some violations are often committed by employees, which can be used as a benchmark for declining performance. The following data was obtained from the results of the interview:
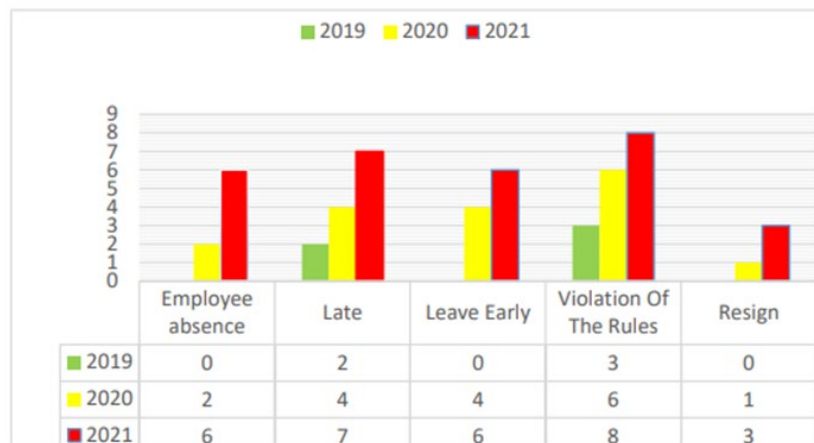
	Employee absence	Late	Leave Early	Violation Of The Rules	Resign
2019	0	2	0	3	0
2020	2	4	4	6	1
2021	6	7	6	8	3

Figure 1. Violation of Employees

The problem that is happening to this company is a decrease in employee performance caused by discrepancies regarding what they receive and what they do. In the last three years, there has been an increase in violations committed by some employees, which can be used as evidence of a decrease in performance (see Figure 1).

2. Literature Review

2.1. Compensation

Lucky et al. (2022) argue that compensation is a direct or indirect reward in the form of financial or non-financial giving that is given fairly and appropriately to employees in return for their contribution/ service to achieving organizational goals. According to Holston & Kleiner (2017), the purpose of providing compensation is to achieve enterprise efficiency, fairness (openness), and compliance with the rules of applicable legislation. What efficiency means is (i) Good compensation can improve employee performance, improve the quality of employee work, and provide employee satisfaction and stockholders (shareholders). (ii) For labor control. According to Pereira (2023), compensation is all recompense that an employee receives from his company due to the services or personnel he has provided to the company.

2.2. Organisational Culture

According to Mujhiyat et al. (2019), organisational culture is what employees perceive and how their perception creates a pattern of beliefs, values, and expectations. This understanding explains that organizational culture is what employees appreciate and how perceptions create patterns of beliefs, values, and expectations. Kreitner et al. (2001) suggest that organisational culture is a set of shared, taken for granted implicit assumptions that a group holds and determines how it perceives, thinks about, and reacts to its various environments. This understanding explains that organizational culture is a force that is not realized but is easy to disseminate. Its presence is not discovered by individuals but is obeyed by individuals in the organizational environment, giving organizational boundaries as shared values and beliefs that underlie identity to members, promote collective commitment, improve the stability of the social system, as well as rely on the behavior of the members.

2.3. Employee Performance

According to Priyatmo (2018), performance comes from the word work achievement or achievement that is actually achieved by a person in his field of work. The definition of performance is a result of work in terms of quality and quantity achieved by an employee in carrying out duties   with job responsibilities given by the organization or company where a person works (Berliana et al., 2018; Putra & Gupron, 2020; Rambulangi et al., 2024).

2.4. Motivation

In the opinion of Edwin B Hippo, direction or motivation is, in essence, it is a skill in aligning employee and organizational interest so that behaviour results in the achievement of employee wants simultaneously with the attainment of organizational objectives (Adegoriola, 2018; Latham, 2023; Sims, 2002). According to Andriyani & Jun (2017), work motivation is a condition that affects generating, directing and maintaining behaviours related to the environment.
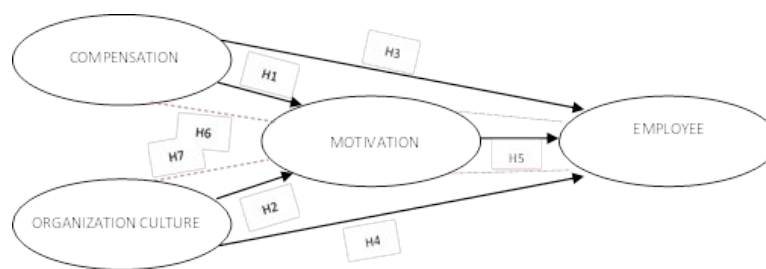
2.5. Research Framework

Figure 2. Research Framework

3. Materials and Methods

This study employs quantitative research methodology with a descriptive approach. Quantitative methods involve research techniques pertaining to numerical data analysed through statistical procedures to interpret results. According to Sujarweni (2014) quantitative research is a type of research that produces discoveries that can be achieved (obtained) using statistical procedures or other means of quantification (measurement). The scale used in this study is the Likert scale. The Likert scale is a research scale used to measure attitudes and opinions. The object of research in this study was an employee of PT Panen Lestari Indonesia (Surabaya East Java). The population in this study was employees of PT Panen Lestari Indonesia, which amounted to 73 employees. The researcher drew census samples or saturated samples, which were used as samples by all population members. The sampling technique in this study is simple random sampling, where population members are randomly sampled without paying attention to the strata present in that population. In this study, the data source was obtained directly from the source in the form of a questionnaire. The data collection technique in this study was to use questionnaire techniques, observations, and interviews. The data analysis technique in this study was to use PLS (Partial Least Square) 3.3.

4. Results

The data in this study were obtained by distributing questionnaires to 73 PT Panen Lestari Indonesia employees. Based on the result of the respondent's answers to the questionnaires distributed, respondent data can be described based on gender, age, and last education as follows:

4.1. Characteristics of the Respondent (Gender)

Table 1. Result of Respondents' Distribution (Gender)

Gender	Frequency	Percentage
Male	16	21.92
Woman	57	78.08
Total	73	100

Table 1 shows that most of the respondents to this study are male, with a percentage of 21.92%, for a total of 16 respondents. Meanwhile, the female gender has a percentage of 78.08% with 57 respondents.

4.2. Characteristics of the Respondent (Age)

Table 2. Result of Respondents' Distribution (Age)

| Level of Age	Frequency	Percentage
< 21 years	2	2.74
21 - 30 years	63	86.3
31 - 40 years	7	9.59
> 40 years	1	1.37
Total	73	100

Table 2 shows that most of the respondents in this study were in the age range of less than 21 years, as many as 2 people (2.74%), the age range of 21–30 years, as many as 63 people (86.3%), the age range of 31–40 years, as many as 7 people (9.59%), and the age range over 40 years, as many as 1 person (1.37%).

4.3. Characteristics of the Respondent (Level of Education)

Table 3. Result of Respondents' Distribution (Level of Education)

Level of Education	Frequency	Percentage
Postgraduate	1	1.37
Graduate	14	19.18
High School	58	79.45
Total	73	100

Table 3 displays most of the respondents in this study had high school education or equivalent, with a percentage of 79.45% and a total of 58 respondents; undergraduate education, with a percentage of 19.18% and a total of 14 respondents; and only 1 person (1.37%) had postgraduate Postgraduate Education.
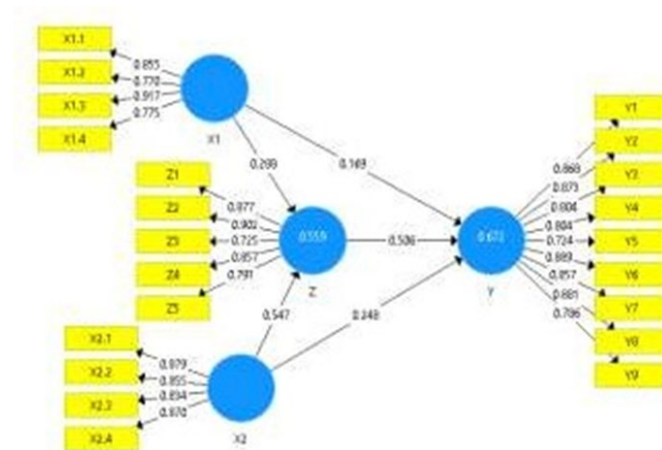
Figure 3. Result of PLS Algorithm

4.4. Measurement Outer Model
4.4.1. Construct validity

Convergent validity aims to determine the validity of each relationship between the question item used and its latent variables. The convergent validity of the measurement model with reflexive indicators is assessed based on the correlation between the items or component score and the latent variable or construct score calculated with PLS. The test results, if the loading factor value is above 0.7, are said to be ideal and valid. However, the value of the loading factor above 0.5 is still acceptable, but if the value is below 0.5, the item used must be removed from the model. In this study, a critical value of 0.7 was used. The following are the results from outer loading for each indicator owned by each exogenous and endogenous latent variable obtained from processing data using Smart PLS.

Table 4. Result of Construct Validity using Outer Loading

Item(s)	Compensation (X1)	Organization Culture (X2)	Employee Performance (Y)	Motivation (Z)
X1.1	0.855			
X1.2	0.770			
X1.3	0.917			
X1.4	0.775			
X2.1		0.879		
X2.2		0.855		
X2.3		0.834		
X2.4		0.870		
Y1			0.868	
Y2			0.873	
Y3			0.804	
Y4			0.804	
Y5			0.724	
Y6			0.889	
Y7			0.857	
Y8			0.881	
Y9			0.786	
Z1				0.877
Z2				0.902
Z3				0.725
Z4				0.857
Z5				0.791

Table 4 illustrates the convergent validity values of each indicator. The value of the loading factor > 0.7 can be said to be valid. This table shows that all loading factor values of the indicators of compensation, organizational culture, motivation (Z), and employee performance (Y) are greater than 0.7. This shows that these indicators are valid.

4.4.2. Construct reliability

The evaluation of the measurement model with the square root of the average variance extracted compares the value of the AVE root with the correlation between constructs. If the value of the AVE root is higher than the correlation value among the constructs, then good discriminant validity is achieved. In addition, an AVE value greater than 0.5 is highly recommended. The construct is declared reliable if the composite reliability value or the Cronbach alpha value is above 0.70. The following are the results of the PLS Model Evaluation.

Table 5. Result of Construct Reliability and Convergence Validity

Variable(s)	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
X1	0.850	0.899	0.692
X2	0.882	0.919	0.739
Z	0.888	0.918	0.694
Y	0.944	0.953	0.694

Table 5 captures the AVE values for the four constructs greater than 0.50. So, we concluded that the evaluation of model measurements has a good discriminant validity.

4.5. Structural Model Evaluation (Inner Model)

The inner model or structural model evaluation assesses the significance of relationships between constructs. The results from Partial Least Square (PLS) analysis using bootstrapping are presented in this section. PLS analysis, a robust statistical technique for examining complex variable relationships, was employed to evaluate the hypothesized model. Bootstrapping, a resampling method, was used to assess the stability and reliability of parameter estimates (see Figure 4). This approach is particularly valuable when the underlying data distribution or sample sizes are unclear.
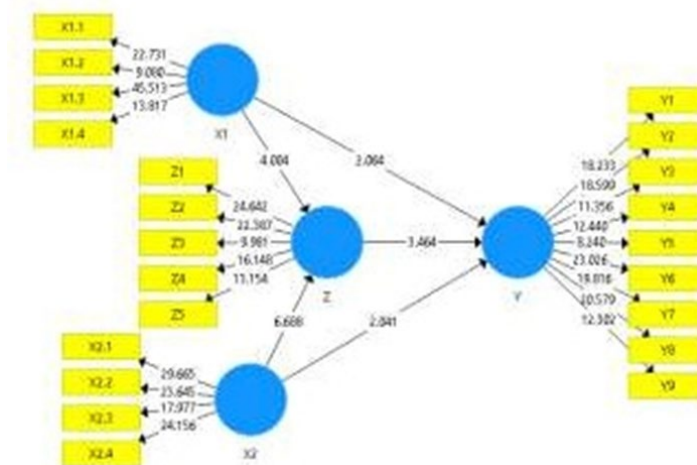
Figure 4. Result of PLS Bootstrapping

The structural models are evaluated using R-square for the dependent construct of the t-test as well as the significance of the coefficients of the structural path parameters. Testing of the structural model is carried out by looking at the R-square value, which is the goodness-fit test of the model.

Table 6. R-Square

Variable(s)	R-Square
Z	0.559
Y	0.672

Table 6 indicates that Compensation (X1) and Organization Culture (X2) explained their relationship to Employee Performance (Y) by as much as 55.9 percent. The remaining 44.1 is explained by other variables not included in this study.

4.6. Hypothesis Testing

The results of testing with bootstrapping from PLS analysis are presented in this section. Partial Least Square (PLS) analysis, a powerful statistical method for examining complex relationships between variables, was employed to evaluate the hypothesized model. The bootstrapping technique, a resampling method, was utilized to assess the stability and reliability of the parameter estimates. This approach is particularly useful when the underlying distribution of the data may not be well-understood or when sample sizes are relatively small. The following discussion will delve into the findings obtained from this analysis, exploring the relationships between the variables of interest and their implications for the study's objectives (see Table 7).

Table 7. Result of Hypothesis Testing

Path Analysis	Original Sample (O)	T Statistics (|O/STDEV|)	P Values	Decision
X1 -> Z	0.288	4.004	0.000	Significant
X2 -> Z	0.547	6.688	0.000	Significant
X1 -> Y	0.169	2.064	0.040	Significant
X2 -> Y	0.248	2.041	0.042	Significant
Z -> Y	0.506	3.464	0.001	Significant

Table 7 shows that the compensation variable positively influences motivation, indicating that the path coefficient value is 0.288. The positive direction of the relationship shows that if the compensation is better, motivation will also increase. The results of a path analysis showing a probability or significant value of t of 0.000 with an alpha of 0.05 (0.000 < 0.05) prove that H0 is rejected. The conclusion that can be drawn is that the Compensation variable has a significant effect on the Motivation variable. Also, the organizational culture positively influences motivation, indicating

that the path coefficient value is 0.547. The positive relationship direction shows that motivation will also increase if the organizational culture is better. This is evidenced by the path analysis results showing a probability or significant value of t of 0.000 with an alpha of 0.05 (0.000 < 0.05), proving that H0 is rejected and H1 is accepted. The conclusion that can be drawn is that the variables of Organizational Culture have a significant effect on the Variables of Motivation, where the better the Organizational Culture, the higher the Motivation.

The variable of compensation positively influences Employee Performance, indicating that the value of the path coefficient is 0.169. A positive relationship direction shows that if the compensation is better, the employee performance will also increase. The results of a path analysis showing a probability or significant value of t of 0.040 with an alpha of 0.05 (0.040 < 0.05) prove that H0 is rejected. The conclusion that can be drawn is that the Compensation variable has a significant effect on the Employee Performance variable. In addition, the organizational Culture variable positively influences Employee Performance, indicating that the value of the path coefficient is 0.245. The positive relationship direction shows that employee performance will increase if the Organizational Culture improves. The path analysis evidences these results, showing a probability or significant value of t of 0.042 with an alpha of 0.05 (0.042 < 0.05), proving that H0 is rejected and H1 is accepted. The conclusion that can be drawn is that the Organizational Culture variable significantly affects employee performance; the better the organizational culture, the higher the employee performance.

This study found that the Motivation variable positively influences Employee Performance, indicating that the path coefficient value is 0.506. A positive relationship direction shows that employee performance will also increase if the motivation is better. This is evidenced by the path analysis results showing a probability or significant value of t of 0.001 with an alpha of 0.05 (0.001 < 0.05), proving that H0 is rejected and H1 is accepted. The conclusion that can be drawn is that the motivation variable significantly affects employee performance; the better the motivation, the higher the employee's performance. Besides that, this study indicates that the compensation variable positively influences Employee Performance with Motivation as an intervening variable, indicating that the path coefficient value is 0.146. A positive relationship direction shows that if the compensation is better, the employee performance will also increase. The results of a path analysis showing a probability or significant value of t of 0.012 with an alpha of 0.05 (0.012 < 0.05) prove that H0 is rejected. The conclusion that can be drawn is that the compensation variable has a significant effect on employee performance, with motivation as an intervening variable.

Then, the organizational culture positively influences employee performance, with motivation as an intervening variable, showing that the path coefficient value is 0.277. The positive relationship direction shows that the relationship between Organizational Culture and Employee Performance will also increase if there is better motivation in mediating. The path analysis evidences these results, showing a probability or significant value of t of 0.004 with an alpha of 0.05 (0.004 < 0.05), proving that H0 is rejected and H1 is accepted. The conclusion that can be drawn is that organizational culture has a significant effect on employee performance, with motivation as an intervening variable.

5. Conclusion

The findings of this study reveal a complex interplay between compensation, organizational culture, motivation, and employee performance. Compensation and organizational culture directly and significantly influence employee motivation and performance. This underscores the importance of these factors in shaping workplace dynamics and outcomes. Motivation emerges as a crucial mediating variable, positively affecting employee performance and serving as a conduit through which compensation and organizational culture indirectly influence performance. These results highlight the multifaceted nature of employee performance determinants and suggest that organizations adopt a holistic performance management approach. Companies can potentially significantly improve overall employee performance by enhancing compensation structures, fostering a positive organizational culture, and boosting employee motivation. Future research could further explore the relative strengths of these relationships and investigate potential moderating factors to provide more nuanced insights for organizational strategy and human resource management. On the basis of the findings of this study, several avenues for future research can be proposed: (i) Investigate the long-term effects of motivation-focused interventions on employee performance. Longitudinal studies could provide insights into the sustainability of performance improvements driven by enhanced motivation. (ii) Explore the potential moderating factors influencing the relationship between motivation and employee performance. These could include individual characteristics, job types, or industry-specific variables. (iii) Conduct comparative studies across different industries or cultural contexts to examine how the relationships between compensation, organizational culture, motivation, and employee performance may vary. (iv) Investigate the specific components of organizational culture that have the most significant impact on employee motivation and performance. This could help organizations prioritize cultural initiatives. (v) Analyze the cost-effectiveness of various strategies for improving employee performance, comparing investments in compensation, cultural initiatives, and motivation-enhancing programs. (vi) Examine the potential synergies or trade-offs between different performance-enhancing factors. For instance, how do compensation improvements interact with organisational culture changes to affect motivation and performance? (vii) Explore the role of technology and digital transformation in shaping the relationships between these variables, particularly in remote or hybrid work environments.

(viii) Investigate how external factors, such as economic conditions or labor market dynamics, might moderate the relationships observed in this study.

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