

Research Article

How important are Motivation and Job Satisfaction in Mediating the Effects of Compensation And Organizational Culture on Employee Performance?

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Abstract: The purpose of this study is to measure and analyze the mediating effect of motivation and job satisfaction on the influences of compensation and organizational culture on employee performance of the Nation and Political Unity Agency, Aceh Province, Indonesia. 110 questionnaires were distributed to the entire staffs of the agency and analyzed using the structural equation modelling (SEM). The study found that, directly the compensation and organizational culture have positively influenced motivation, job satisfaction, and employee performance. Motivation and job satisfaction are also recorded to have positive effects on employee performance. Finally, the study also documented that motivation and job satisfaction have significant mediated effects on the influences of compensation and organizational culture on employee performance. These findings showed that the higher level of work motivation and job satisfaction due to the higher level of compensation received by the employee and conducive organizational culture would consequently improve in employee performance. Thus, any efforts to enhance employee performance could be indirectly focused on the improvement of compensation and organizational culture or be directly centered on the increments of work motivation and employee's job satisfaction.

Keywords: Organizational culture, Compensation, Motivation, Job Satisfaction, Employee Performance, Public organization.

INTRODUCTION

Employee performance is a pivotal variable that needs to be observed, monitored, and evaluated by management as it ensures the progress and achievement of organizational goals. As one of the governmental agencies in the province of Aceh, Indonesia, the Nation and Political Unity Agency plays an important role to provide democratic life and solid national unity among the public. To realize its vision and mission, the officers of the agency should work harder showing their higher level of performance. However, in the last few years, the agency has been not fully realizing its set targets due to the low level of employee performance. Based on the preliminary interviews with several employees and top managers, they admitted that not all assigned official tasks to employees could be completed on time. Some employees were too late to start carrying out the assigned official tasks that lead

to the slow pace of official activities and their completion.

Many previous studies recorded that changes in employee performance had been determined by many factors, such as work motivation (Twalib and Kariuki, 2016; and Kiruja and Mukuru, 2018), job satisfaction (Salisu *et al.*, 2015; Mayawati, 2010), compensation (Abowd, 1990; Tosi *et al.*, 2004), organizational culture (Yousef, 1998; Huey and Zaman, 2009), and so forth. An employee with a higher level of work motivation would work harder to accomplish the assigned official tasks. It becomes a strength, power, or a complex state and preparedness in an employee to move towards a specific goal, both consciously and unconsciously (Makmun, 2011; Elliot *et al.*, 2016) that results in the higher level of employee achievements due to a greater level of employee's job satisfaction.

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Organizational culture is also found to affect employees' job satisfaction and their performances (Yousef, 1998; Huey and Zaman, 2009). It shapes employees' conducts to advance their workability, dedication and loyalty, and encourages extra-role behaviours, such as assisting other employees, volunteering to do extra tasks, circumventing quarrels with other co-workers, safeguarding organizational assets, obeying regulations, tolerating less pleasant situations, offering constructive advice, and utilizing fully working hours. These all would improve employee performance as a result of the high level of their job satisfaction (Yousef, 2000).

Furthermore, without receiving fair compensation, the employee would not be motivated to work harder (Tosi *et al.*, 2004; Murty, 2012), supported by a conducive organizational culture (Yousef, 1998). As it is well-understood, compensation is a type of beneficiaries received by the employee in the forms of money or other rewards as an exchange of works and services provided to the organization. Accordingly, compensation that is provided in accordance with the level of the services of employees to the organization would have a positive impact on employee performance. Thus, providing proper compensation is one of strategic decision to improve worker motivation, job satisfaction, and consequently finally employee performance.

Although there have been many previous studies investigated the influences of compensation (Abowd, 1990; Tosi *et al.*, 2004) and organizational culture (Yousef, 1998; Huey and Zaman, 2009) on work motivation (Twalib and Kariuki, 2016; and Kiruja and Mukuru, 2018), job satisfaction (Salisu *et al.*, 2015; Mayawati, 2010), and employee performance, however none of them has mainly explored public organization, particularly the Nation and Political Unity Agency in the Province of Aceh, Indonesia. Additionally, previous studies have not investigated the mediating effects of work motivation and job satisfaction on the influences of compensation and organizational culture on employee performance. Thus, this study intends to fill this gap by investigating the mediated effects of work motivation and job satisfaction on the relationship between compensation, organizational culture, and employee performance in the Nation and Political Unity Agency, Aceh province, Indonesia.

It is hoped that the empirical findings of this study would be valuable for the top management to be used as a reference to promote employee performance on the basis of improving work motivation, job satisfaction, and organizational culture through a fair compensation scheme. The findings of this study are also hoped to enrich existing literature on human resource management, especially those related to the influence of compensation, organizational culture, work motivation, job satisfaction, and employee performance.

The next sections of this study are structured in the follows. Section 2 reviews selected relevant previous studies. Section 3 provides the research method and data, followed by the discussion of the findings in Section 4. Finally, Section 5 concludes the study.

LITERATURE REVIEW

Employee Performance

Job performance shows the real achievement of an employee or organization as the result or output of a particular process produced by all components of the organization in the use of resources (Robbins and Judge, 2016). It is a combination of conducts with the attainment of what is expected and preference or part of the obligation needs that exist in everyone in the organization (Zhang *et al.*, 2012). Human resources' performance determines the success of the organization in achieving its goals. The employee must work harder to produce the highest performance according to standards and regulation of the organization. Thus, employee performance is the result of the work of a member of staff for a certain time compared to a range of possibilities, for instance, principles, goals, and criteria that have been set in advance by the organization and have been agreed upon by all members of the organization.

According to Mangkunegara (2014), there have been three aspects of employee performance, namely: i) outcomes of work, how employee gets something to do; b) discipline and the accuracy of employee in carrying out the official tasks, how employee completes his/her job along with the demands of the time needed; and c) responsibility and cooperation, how employee can work well beneath custody or out of control. In the Indonesian context, the Government Regulation No. 46 (2011) has been enacted to measure the performance of employees in the public organization. The regulation has defined the civil servants' performance as the result of work or the level of achievement of results based on the quality, quantity, and ability of an employ in accomplishing their assigned official tasks in accordance with the functions and responsibilities given to an employee (Government Regulation, Article 4, No. 46, 2011).

Job Satisfaction

Job satisfaction refers to a general attitude of an employee towards his/her work, showing the difference between the number of awards received and the amount he/she believe should receive (Patrick and Sonia, 2012; Robbins and Timothy, 2013). Job satisfaction, according to Locke and Latham (2002), indicates an employee's feeling of satisfied or dissatisfied with his/her work, which something personal, depending on how to recognize the appropriateness or conflict between his/her desires and the output he/she gets. Jobs require interaction with co-workers and superiors in accordance with the

organizational rules and policies, meeting performance standards, living with a work environment that is often less than ideal and the like. Thus, job satisfaction shows the relationship with performance determinants and it is a value predilection held by many managerial behaviour studies.

According to Mangkunegara (2012), job satisfaction is a feeling of employees related to their work or their condition. The feeling reflects the conformity between what the employee expects and what the employee gets from his job. Thus, job satisfaction is the employee's view of his job, including employee feelings and employee ratings of the role of work in fulfilling their needs. In their study, Judge *et al.*, (2005) reviewed and re-examined the relationship between job satisfaction and job performance and concluded that job satisfaction plays important role in improving performance of employees and organizations, both public and private.

Work motivation

Work motivation is a desire of the employee to perform official assigned jobs, encouraged by inside or outside motives. It is an encouraging action of the employee to take it because he/she wants to do it. If the encouragement to meet needs is not met, the employee would show unsatisfactory behaviour, and vice versa (Burke, 2007). Human beings are motivated to satisfy a number of inherent needs that tend to be instinctive. This need consists of five types and is formed in a hierarchy in fulfilment. Humans basically will try to meet the needs of the first level, followed by the needs of the second level and so on. These needs include physical, security, social, recognition, and self-actualization needs.

Motivation is a psychological attribute of employee activities to contribute in the form of an employee's level of dedication including the factors that cause, channel, and maintain employee behaviour in the way of a certain determination to attain the desire. An employee would perform official jobs that fulfil employee desires (Shahzadi *et al.*, 2014), which in turns support employee's associated organizations (Twalib and Kariuki, 2016; and Kiruja and Mukuru, 2018). Thus, work motivation is as a driving force for the worker to contribute as much as possible for the accomplishment of the organizational objectives. The attainment of employee desires might be attained by achieving organizational goals indirectly. In short, work motivation provides energy that drives all existing potential, creates high and noble desires, and increases togetherness of employee within an organization.

Compensation

Basically, people work to obtain money to meet their needs. An employee instigated to be grateful for hard work and increasingly showed his/her allegiance to the organization due to compensation

received as an exchange for their performance. Compensation is somewhat that is received by employees as a surrogate for their rendered services to the organization (Rivai and Sagala, 2009). It represents the whole of all rewards given to employees by the organization in return for their services (Noe *et al.*, 2011).

Referring to these definitions, it is obvious that the overall significance of providing compensation is to attract, retain, and motivate employees. Compensation might be used as a motivator in work as one of the motives to attain higher performance. An improper or inadequate compensation provided to employees would result in a reduction in their performance. Njoroge and Kwasira (2015) opined that compensation is a sort of appreciations for employees to perform better in accomplishing their official tasks. Compensation both in the monetary form and non-monetary form has been proven to be an incentive for the employee to work harder to materialize the organization set goals and targets (Hameed *et al.*, 2014; Risambessy, 2017). Subsequently, it has potential valuable effects to raise worker productivity (Obasan, 2012). In short, compensation is perceived as one of the most essential causes determining work motivation and, in turns, employee performance.

Organizational culture

All organizations undoubtedly have different views and definitions of organizational culture. Robbins and Judge (2012) viewed organizational culture as a shared value system in an organization that determines the level of how employees perform activities to achieve organizational goals. It is also defined as values that are guided by human resources in dealing with external problems and efforts to appreciate existing values and comprehend how they have to act and behave (Denison, 1990). All human resources should be able to correctly understand the organization's culture because this understanding is intimately related to every step or activity carried out, both strategic and tactical planning, and its implementation activities, whereby each of these activities is based on organizational culture. In other simpler words, each of the employees needs to be aware of and implement the culture.

Organizational culture is one of a pivotal factor in an organization. The organization with a strong culture can attract more attention of an individual to join the organization. Burly organizational culture supports the achievement of organizational goals as it helps the organizations to direct employees to accomplish a good job. Organizational culture is frequently interpreted as values, symbols that are understood and obeyed mutually by all organizational members so that members feel bound in a family and generate a situation that is different from other organizations. Yousef (1998 and 2000) and Huey and Zaman (2009) documented that organizational culture

affected work motivation, job satisfaction, and employee performance.

RESEARCH METHODS

This study empirically explores the mediating effect of work motivation and job satisfaction on the influences of compensation and organizational culture on employee performance of the Nation and Political Unity Agency, Aceh Province, Indonesia. All 110 staff

of the agency was selected as the sample of the study using the census sampling technique. To collect the data, the questionnaires were distributed to the respondents.

To measure the investigated variables, the definitions of operationalized variables and their indicators are provided in Table 1.

Table1. Operationalized variables’ definitions and their measurements

Variable	Definition	Indicator	Reference
Employee performance (EMP) – Endogenous variable	Employee Performance (Z) Performance is a work performance, which is a comparison between work results with predetermined standards.	<ul style="list-style-type: none"> • Quantity • Timeliness • Effectiveness • Efficiency • Cooperation 	Government Regulation of the Republic of Indonesia, No. 46 (2011)
Motivation (MOT) – Mediating variable	“A willingness to put a high level of effort towards organizational goals conditioned by the ability to meet the needs of employees and organization”	<ul style="list-style-type: none"> • Decent wages • Promotion opportunities • Recognition • Job security • Good work 	Robbins <i>et al.</i> , (2011)
Job satisfaction (JST) – Mediating variable	“Attitudes and feelings of employees about their work”	<ul style="list-style-type: none"> • Co-workers • Leadership • Promotion • Remuneration 	Armstrong (2012)
Compensation (CMP) - Exogenous variable	“Anything received by employees as a remuneration for their work”	<ul style="list-style-type: none"> • Incentives • Transportation • Allowances • Health Benefits • Family Allowances 	Sedarmayanti (2011)
Organizational culture (OCL) - Exogenous variable	“A basic thought patterns taught to new personnel as a way to feel, think, and act correctly along the days”	<ul style="list-style-type: none"> • Totality • Initiatives • Output orientation • Aggressiveness • Stability 	Luthans (2011)

To analyze the data, a Structural Equation Modelling (SEM) is used and analyzed using AMOS statistical software. This approach is a suitable estimated model as it enables to check a series of multifarious interrelationships (Hair *et al.*, 2012). The estimated SEM equations tested in this study are proposed, as follows:

$$MOT = \gamma_{11}CMP + \gamma_{12}OCL + \zeta_1 \tag{1}$$

$$JST = \gamma_{21}CMP + \gamma_{22}OCL + \zeta_2 \tag{2}$$

$$EMP = \gamma_{31}CMP + \gamma_{32}OCL + \gamma_{33}MOT + \gamma_{34}JST + \zeta_3 \tag{3}$$

Where MOT is work motivation, JST is the job satisfaction, CMP is the compensation, OCL is the organizational culture, EMP is the employee performance, γ_{ii} are the estimated loading factors for each variable and ζ_i are the structured error terms.

Prior to the SEM analysis, the instrument tests, comprising validity and reliability would be tested first. In the next step, the goodness of fit indices is performed to warrant the appropriateness of the estimated model. Finally, the estimated findings of the SEM would be interpreted and discussed.

FINDINGS AND DISCUSSION

Characteristics of the Respondents

As per December 2017, the Nation and Political Unity Agency, Aceh Province, Indonesia has 110 staff, both with permanent and contracted status. Of those staff, 80% of them were male, while the rest 20% were female. Majority of them were having age above 40 years old (42.7%), while the minority of them were in the age group between 25 - 30 years old (7.3%). In term of marital status, 84% have married, 13.6% were single, and only 1.8% were widow/widower, respectively. Viewing from the consecutive years of services, 14.5% have served the office for less than 5

years, 19.1% have served for 5-10 years, 21.8% have served for 10-15 years, and 13.6% have served for 15-20 years. However, the majority of them (30.9%) have served for more than 20 years. Finally, in term of education level, 8.2% of employees possessed a master degree, 60% with a bachelor degree, 27.3% with a diploma degree, and 4.5% with Senior High School, respectively.

As said earlier, prior to the reports of the estimates of proposed SEM equations, the validity and reliability tests were tested first to ensure the accuracy and consistency of the indicators in measuring the variables. All 24 indicators utilized to measure 5-variables were all found to be valid and reliable, thus all indicators were appropriate to measure the variables, estimate, and predict their interrelationships. Besides, to make sure the appropriateness of the estimated model, the study also tested the indices of the goodness of fit. The study documented that all goodness of fit indices are found to be a better fit, showing that the overall estimated models were a better fit to offer vigorous and robust empirical evidences.

Direct effects of competition, organizational culture, and working motivation on job performance and staff performance

Table 2 reported the findings of the direct effects of compensation and organizational culture on work motivation, job satisfaction, and employee

performance and staff performance. As shown in Table 2, the study found that compensation and organizational culture have significant positive influences on work motivation, job satisfaction, and employee performance at least at the 5% level of significance. Similarly, the study also documented significant positive effects of work motivation and job satisfaction on employee performance at the 1% level of significance.

Interestingly, compensation is found to be a more pivotal role in affecting job satisfaction (0.703) as compared to organization culture (0.266). These findings show that an increase in compensation and organizational culture by a 1 unit in the Likert scale would enhance job satisfaction, respectively, by 0.703 and 0.266 units in the Likert scale. These findings further implied that to further enhance job satisfaction; the employee perceived a fair compensation scheme is far more important for them as compared to the availability of better organizational culture. Thus, it is extremely important for the office managers to be focused more on giving better compensation rather than providing better organizational culture in order to enhance employee's job satisfaction. These findings of positive significant effect of compensation on job satisfaction are in line with previous studies by Hameed *et al.*, (2014) and Risambessy (2017) who found a positive effect of compensation on job satisfaction and subsequently on work productivity (Obasan, 2012).

Table2. Direct effects of compensation, organizational culture on motivation, job satisfaction and employee performance

Interrelationship among Variables			Estimate	P-value
Job satisfaction	<---	Compensation	0.703**	0.030
Job satisfaction	<---	Organizational culture	0.266**	0.051
Motivation	<---	Organizational culture	0.260***	0.000
Motivation	<---	Compensation	0.215**	0.039
Employee performance	<---	Organizational culture	0.230**	0.027
Employee performance	<---	Motivation	0.326***	0.000
Employee performance	<---	Compensation	0.194***	0.000
Employee performance	<---	Job satisfaction	0.362***	0.000

Note: *** and ** indicate significance at the 1% and 5% levels, respectively.

On the other hand, surprisingly the compensation is found to be more relatively less crucial in influencing the work motivation (0.215) as compared to organization culture (0.230). These findings provide evidence that an increase in compensation and organizational culture by a 1 unit in the Likert scale would enhance the work motivation, respectively, by 0.215 and 0.230 units in the Likert scale. These findings further signified that to promote work motivation; the employee perceived that a better organizational culture is more important for them as compared to the fair compensation scheme. Thus, to enhance employee's work motivation, it is important for the top management to focus more on providing better organizational culture than giving better compensation to the employees.

These findings further confirmed the important role of having the supportive organizational culture to enhance job satisfaction and employee performance, the findings in parallel with previous studies by Zahid *et al.*, (2017), Majid *et al.*, (2016), and Erni *et al.*, (2018). These studies found that the job satisfaction of hotel employees in Pakistan was very much influenced by the organizational culture. The organizational culture that is often seen as values and symbols that are understood and obeyed by all members of the organization make them having a bounded feeling like a family within the organization that consequently influenced employee performance. These findings are also supported by those of Fachreza *et al.*, (2018), Sativa *et al.*, (2018), Jaya *et al.*, (2019), and Rozanna *et al.*, (2019), who documented that organizational culture significantly

and positively affected the job satisfaction and employee performances.

Finally, as for the determinants of employee performance, the study documented that job satisfaction is to be the most important factor (0.362) affecting it, followed by work motivation (0.326) and compensation (0.194). These findings showed that a 1 unit in the Likert scale increase in job satisfaction, work motivation, and compensation would increase the employee performance by 0.362, 0.326, and 0.194, respectively. These findings confirmed the importance of providing a higher level of job satisfaction for employees would surely improve their performance to the highest level possible.

These findings supported the findings of the previous study by Gerhart and Milkovich (1990), Maheswari and Lutvy (2015), and Kurniawan *et al.*, (2017) who recorded the positive impact on compensation on performance. These findings are also supported by those of Fachreza *et al.*, (2018), Sativa *et al.*, (2018), Jaya *et al.*, (2019), and Rozanna *et al.*, (2019), who documented that organizational culture significantly and positively affected the employee

performances. Finally, our findings also in harmony with those of Yousef (2000) and Judge *et al.*, (2005), who recorded that job satisfaction and play an important role in improving the performance of employees.

Mediating effects of work motivation and job satisfaction on the influences of compensation and organizational culture on employee performance

Table 3 reported the findings of the work motivation and job satisfaction on the influences of compensation and organizational culture on employee performance at the Nation and Political Unity Agency, Aceh Province, Indonesia. As shown in Table 3, both work motivation and job satisfaction are found to be positive significance in mediating the effects of compensation and organizational culture on employee performance. These findings are reasonable enough as work motivation and job satisfaction have significant effects on employee performance, thus they showed the existence of mediated effects. These findings further signified that all efforts to enhance employee performance, they should be focused on enhancing a fair compensation scheme and supportive organizational culture.

Table3. Mediating effects of motivation and job satisfaction on the influences of compensation and organizational culture on employee performance

Interrelationships among variables				Estimate	Sobel P-value	
EMP	<---	MOT	<---	CMP	0.070* = (0.215 x 0.326)	0.061
EMP	<---	MOT	<---	OCL	0.085** = (0.260 x 0.326)	0.031
EMP	<---	JST	<---	CMP	0.254** = (0.703 x 0.362)	0.032
EMP	<---	JST	<---	OCL	0.096* = (0.266 x 0.362)	0.055

Note: ** and * indicates significance at the 5% and 10% levels. EMP = Employee performance; OCL = organizational culture; MOT = motivation; JST = Job satisfaction; and CMP = Compensation.

Comparing to the mediating variable of work motivation, job satisfaction is found to mediate more the effects of compensation and organizational culture on employee performance, indicated by a larger mediating estimated coefficient of 0.254. These findings further confirmed the most influential factor of job satisfaction in mediating the effects of compensation and organizational culture on employee performance at the Nation and Political Unity Agency, Aceh Province, Indonesia. Our findings contradicted to earlier work by Brahmasari *et al.*, (2009), Jaya *et al.*, (2019), and Rozanna *et al.*, (2019), who found the insignificant mediating effect of job satisfaction on the influence of organizational culture on employee performance.

Since the study found significant partial relationships between compensation and organizational culture on work motivation and job satisfaction, and the effects of work motivation and job satisfaction on employee performance are also significant, thus it concluded that the work motivation and job satisfaction are found to act as the partial mediators. These findings further justified that to enhance the employee

performance; the focus should be given on improving work motivation and job satisfaction on the basis of the enrichment of compensation and organizational culture of the Nation and Political Unity Agency, Aceh Province, Indonesia.

CONCLUSIONS

This study measured and analyzed empirically the mediating effect of work motivation and job satisfaction on the influences of compensation and organizational culture on performance of the employees at the Nation and Political Unity Agency, Aceh Province, Indonesia. 110 questionnaires were distributed to the entire employees of the agency and analyzed using the structural equation modelling (SEM).

The study recorded that compensation and organizational culture have significantly and positively affected work motivation, job satisfaction, and employee performance. Similarly, work motivation and job satisfaction are also documented to have positive and significant effects on employee performance. Finally, the study also recorded that work motivation and job satisfaction have significant mediating effects

on the influences of compensation and organizational culture on employee performance. These findings implied that the higher level of work motivation and job satisfaction would guarantee an increase in the employees' performances. Thus, any efforts to improve employees' performance should be directly focused on the improvement of work motivation and job satisfaction on the basis of improving a better scheme of compensation and organization culture.

Future studies on this topic could incorporate more variables into the analysis, considering either internal or external factors determining work motivation, job satisfaction, and employee performance of public organizations to provide more comprehensive and reliable empirical evidences. Finally, considering more public organizations in the analysis and compare them with the private organizations would also enrich existing empirical evidence on the effects compensation and organizational culture on work motivation and job satisfaction as well as employee performance.

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