

THE EFFECT OF COMPENSATION AND WORK MOTIVATION ON EMPLOYEE PERFORMANCE: THE MEDIATING ROLE OF JOB SATISFACTION (A CASE STUDY AT PERUMDA DELTA TIRTA SIDOARJO)

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Abstract: This study analyses the effect of compensation and work motivation on employees' performance with work satisfaction as a mediating variable. Furthermore, the study applies quantitatively. The instrument in the data collection technique used was a questionnaire. The questionnaires were distributed to 180 respondents as samples. Moreover, the data analysis technique used was Partial Least Square, Structural Equation Modelling (PLS-SEM). The result shows that both compensation and work motivation have a positive and significant effect on employees' performance, either directly or through work satisfaction as a mediating variable. Likewise, compensation as well as work motivation have a significant effect on work satisfaction. Therefore, these findings strengthen organizational behavior theory that states external and internal factors such as internal and external factors have an important role in increasing employees' satisfaction and performance.

Keywords: compensation, work motivation, work satisfaction, employees' performance, and PLS-SEM

1. Introduction

In the increasingly competitive global market, organizational performance is a key factor in determining success. For public service enterprises such as Perumda Delta Tirta Sidoarjo, performance not only reflects operational effectiveness but also directly affects customer satisfaction and public image. However, internal data from Perumda Delta Tirta Sidoarjo in 2024 revealed significant operational challenges, specifically a fluctuating number of leakage complaints that peaked at 411 cases in December 2024. Furthermore, the percentage of Non-Revenue Water (NRW) also showed a concerning upward trend, rising from 31.67% in January 2024 to 38.78% in December 2024, a value above the ideal standard. These phenomena clearly indicate a decline in the effectiveness of technical services and highlight that improving company performance is an undeniable priority.

The endeavor to enhance company performance must be supported by an appropriate Human Resource (HR) management strategy, especially concerning compensation and work motivation. Compensation, encompassing salary, allowances, and incentives, represents the organization's appreciation for employee contributions. Work motivation, meanwhile, is the internal drive that fosters dedication and loyalty in carrying out tasks. Previous studies show mixed results (a research gap) regarding the effectiveness of these factors, particularly whether job satisfaction acts as a mediator. Some findings suggest compensation impacts performance through satisfaction (e.g., Oktaviani, 2020), while others find a direct effect without mediation (e.g., Jufrizen, 2020). Similar inconsistencies are observed for work motivation.

In the context of a regional public company (BUMD) like Perumda Delta Tirta Sidoarjo, which operates under government regulations that limit compensation policy flexibility, it is essential to deeply investigate the interplay of these factors. This study, therefore, aims to test and analyze the influence of compensation and work motivation on employee performance,

mediated by job satisfaction, specifically among the operational staff of Perumda Delta Tirta Sidoarjo. This research employs quantitative methods (PLS-SEM) and measures employee performance across three key dimensions: work quality, work quantity, and work reliability. The findings will contribute to strategic HR management, particularly in the public service sector.

2. Literature Review

2.1 Theoretical Foundation

This study utilizes several cornerstone theories of organizational behavior and human resource management to construct the conceptual framework:

Theory of Planned Behavior (TPB)

The TPB, developed by Icek Ajzen (1991), posits that an individual's behavior stems from a behavioral intention, which is determined by three main factors: attitude toward the behavior, subjective norm, and perceived behavioral control. In the context of this research, compensation (an external factor) can enhance perceived behavioral control (by providing sufficient financial resources), while work motivation (an internal factor) helps shape a positive attitude toward the behavior (work). The theory is relevant for understanding how job satisfaction acts as a psychological component that reinforces the link between these factors and actual work behavior (performance).

Self-Determination Theory (SDT)

SDT, formulated by Deci and Ryan (1985, 2000), differentiates between intrinsic motivation (derived from inner satisfaction and interest) and extrinsic motivation (derived from external rewards like salary or incentives). The theory suggests that fulfilling three basic psychological needs—Autonomy, Competence, and Relatedness—leads to higher intrinsic motivation, satisfaction, and performance. This directly links extrinsic compensation with intrinsic motivation and subsequent satisfaction.

Expectancy Theory

As a cognitive process theory by Victor H. Vroom, motivation relies on three interdependent components: Expectancy (belief that effort leads to desired performance), Instrumentality (belief that performance leads to a desired outcome/reward), and Valence (the value placed on the reward). This theory underpins the influence of compensation and motivation, as employees will only be motivated if they believe their hard work (expectancy) will result in rewards (instrumentality) they value (valence).

Equity Theory

Developed by John Stacey Adams, this theory highlights the importance of perceived fairness in the workplace. Employees compare their ratio of Input (contribution: effort, experience) to Output (rewards: salary, recognition) with that of a Referent Other. A perception of inequity (imbalance) can lead to demotivation or negative behavioral changes (e.g., reducing effort or leaving the job). This is critical for assessing the impact of compensation on job satisfaction.

2.2 Variable Review

2.2.1 Employee Performance (Endogenous Variable)

Employee Performance is defined as the individual work output in executing tasks and responsibilities aligned with organizational standards. The accumulated individual

performance forms the collective performance of the organization. In this study, employee performance is measured through three core dimensions: Work Quality (accuracy, thoroughness, adherence to standards), Work Quantity (volume of work completed, reflecting efficiency), Work Reliability (consistency, responsibility, and dependability in task completion).

2.2.2 Compensation (Exogenous Variable)

Compensation is all forms of rewards—both financial (direct and indirect, e.g., salary, health insurance) and non-financial (e.g., status, recognition, opportunity for development)—given to employees for their contribution to the organization. Fair and transparent compensation is a strategic factor for fostering motivation and loyalty. The indicators used are: Appropriateness of income, Work recognition, Opportunity for self-development.

2.2.3 Work Motivation (Exogenous Variable)

Work Motivation is the internal drive that encourages employees to carry out their work optimally and responsibly. High motivation is linked to increased performance, productivity, and quality of work. The key indicators for this variable are based on Herzberg's Two-Factor Theory: Employee relationships (harmonious relations with colleagues), Sense of security in the job, Opportunity for growth and development.

2.2.4 Job Satisfaction (Mediating Variable)

Job Satisfaction is the positive feeling that arises from an employee's evaluation of their job, formed by comparing expectations with the reality of working conditions (Robbins & Judge, 2019). It is a critical variable that links compensation and motivation to performance, as high satisfaction leads to greater productivity and lower turnover. The indicators include satisfaction with: Salary, The job itself, Co-workers.

2.3 Research Model

Based on the theoretical foundations (TPB, SDT, Expectancy Theory, and Equity Theory) and preceding empirical studies, the conceptual framework proposes that Compensation (X1) and Work Motivation (X2) influence Employee Performance (Y), both directly and indirectly through Job Satisfaction (Z) as a mediating variable. The Research Model paths are visually described as follows:



Figure 1. Research Model

From this model, seven hypotheses are formulated:

Path Hypothesis

- H1** Compensation significantly influences Employee Performance.
- H2** Work Motivation significantly influences Employee Performance.
- H3** Compensation significantly influences Job Satisfaction.
- H4** Work Motivation significantly influences Job Satisfaction.
- H5** Job Satisfaction significantly influences Employee Performance.
- H6** Job Satisfaction mediates the influence of Compensation on Employee Performance.
- H7** Job Satisfaction mediates the influence of Work Motivation on Employee Performance.

3. Method

This study employed a quantitative research approach utilizing a causal research design to analyze the direct and indirect influences of Compensation and Work Motivation on Employee Performance, with Job Satisfaction serving as the mediating variable. The research population consisted of all 322 permanent operational employees at Perumda Delta Tirta Sidoarjo, chosen for their direct involvement with critical company performance indicators like leakage resolution and Non-Revenue Water (NRW) levels. The purposive sampling technique was applied, selecting employees who had worked for a minimum of one year, received both financial and non-financial compensation, and were directly involved in operational activities. Based on the Slovin formula with a 5% tolerance error, the minimum sample size was approximately 179, leading the researcher to set the final sample size at 180 respondents. Primary data was collected through a questionnaire using a 5-point Likert scale. The measurement utilized three indicators each for Compensation, Work Motivation, Job Satisfaction, and Employee Performance. The collected data was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS software, suitable for complex models and the existing sample size. The analysis validated the measurement model (Outer Model) based on Convergent Validity (Outer Loading ≥ 0.7 and AVE ≥ 0.5) and Reliability (Composite Reliability and Cronbach's Alpha ≥ 0.7). Subsequently, the structural model (Inner Model) was evaluated using the Coefficient of Determination (R^2) and Predictive Relevance (Q^2), and the seven hypotheses were tested for significance using the Bootstrapping technique (t -statistic ≥ 1.96 or p -value < 0.05).

4. Result and Discussion

4.1 Descriptive Statistics and Respondent Profile

The study successfully analyzed data from 180 permanent operational employees at Perumda Delta Tirta Sidoarjo. The sample was predominantly male (97.2%) and highly experienced, with 60.6% having worked for over 10 years. Descriptively, employee self-perception was very high: the Employee Performance variable recorded the highest mean ($\bar{x}=4.16$ on a 5-point scale), indicating employees perceive their work quality, quantity, and reliability as consistently strong. Job Satisfaction ($\bar{x}=3.88$) and Work Motivation ($\bar{x}=3.83$) followed closely. Notably, Compensation received the lowest, yet still positive, mean ($\bar{x}=3.62$), and had the highest standard deviation ($SD=0.95$), suggesting that while generally adequate, employee perception of pay, recognition, and development opportunities was the most varied and polarized.

4.2 Measurement Model Assessment (Outer Model)

The instrument's quality was rigorously tested using the Structural Equation Modeling – Partial Least Squares (SEM-PLS) approach.

A. Validity

All indicators demonstrated high validity. Convergent validity was achieved as all indicators met the minimum loading threshold (Loading Factor ≥ 0.7). Furthermore, the Average Variance Extracted (AVE) values for all four constructs exceeded the required 0.5 threshold, with Job Satisfaction at 0.909 and Employee Performance at 0.809. Discriminant validity was also confirmed by the Cross Loading analysis, as all indicators exhibited a higher loading on their intended construct than on any other latent variable.

B. Reliability

The internal consistency of the constructs was verified by meeting the reliability criteria. All variables registered Composite Reliability (CR) and Cronbach's Alpha values significantly above the minimum threshold of 0.7. Job Satisfaction recorded a CR of 0.968, and Employee Performance a CR of 0.927, confirming the constructs possess very high reliability and internal consistency.

4.3 Structural Model Evaluation (Inner Model)

The evaluation of the structural model confirmed its explanatory power and predictive capability.

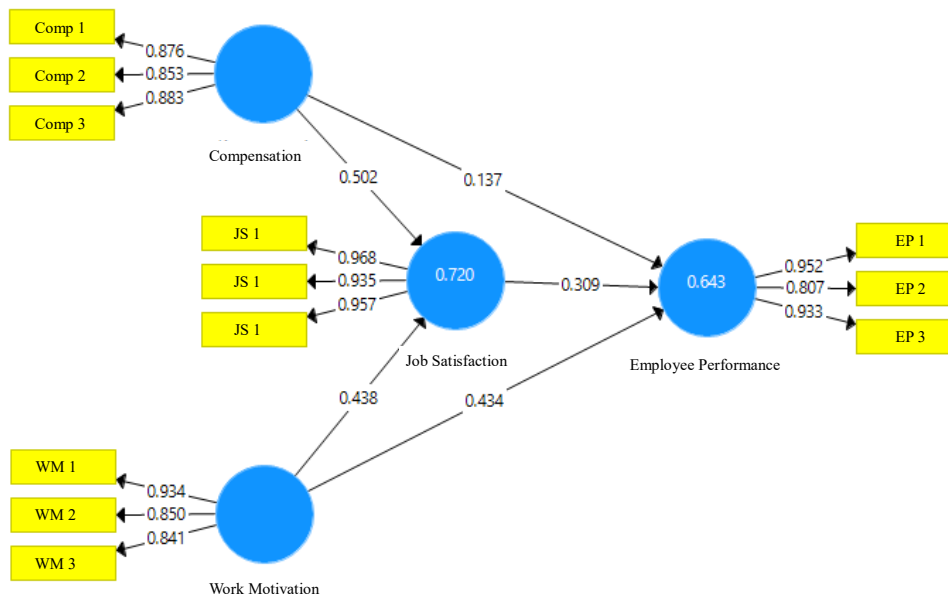


Figure 2. Path Diagram

A. Coefficient of Determination (R^2)

The R^2 values, which measure the percentage of variance explained in the endogenous variables, were strong. The model explained 72.0% of the variance in Job Satisfaction, classifying this explanatory power as high ($R^2=0.720$). For Employee Performance, the combined variables (Compensation, Motivation, and Satisfaction) explained 64.3% of the variance ($R^2=0.643$), which is classified as substantial and strong explanatory power.

B. Predictive Relevance (Q^2)

The model's ability to predict the data was excellent, with the Stone-Geisser Q^2 value calculated at 0.900. Since this value is substantially greater than zero, the model possesses a high degree of predictive relevance.

4.4 Hypothesis Testing and Discussion

The bootstrapping analysis confirmed the significance of all seven hypotheses (p -value < 0.05 or t -statistic > 1.96).

H1: Compensation $\rightarrow$ Performance: Accepted. Compensation showed a significant positive direct influence ($\beta = 0.137$, p -value $= 0.014$). This implies that adequate rewards are a necessary antecedent, albeit not the primary driver, for promoting better work outcomes.

H2: Work Motivation $\rightarrow$ Performance: Accepted. Motivation demonstrated the strongest direct positive influence ($\beta = 0.434$, p -value $= 0.000$). This aligns with organizational behavior theory, emphasizing that intrinsic motivational factors (such as commitment and growth) are the most dominant elements driving high performance in public sector contexts.

H3: Compensation $\rightarrow$ Job Satisfaction: Accepted. Compensation had a strong and highly significant positive influence ($\beta = 0.502$, p -value $= 0.000$). Fair and proportional rewards directly increase the employees' sense of being valued and appreciated.

H4: Motivation $\rightarrow$ Job Satisfaction: Accepted. Work Motivation was highly significant in influencing job satisfaction ($\beta = 0.438$, p -value $= 0.000$). High employee motivation, driven by personal and environmental support, contributes significantly to overall job comfort and contentment.

H5: Job Satisfaction $\rightarrow$ Performance: Accepted. Job Satisfaction positively and significantly influenced performance ($\beta = 0.309$, p -value $= 0.003$). This confirms that a satisfied employee possesses higher intrinsic drive to deliver optimal performance.

H6 & H7: Mediation Analysis: Accepted (Partial Mediation). Job Satisfaction was confirmed as a partial and significant mediator for the influence of both Compensation (β indirect $= 0.155$, p -value $= 0.002$) and Work Motivation (β indirect $= 0.135$, p -value $= 0.023$) on Employee Performance. This key finding suggests that the effects of compensation and motivation are significantly reinforced and stabilized when they successfully generate a positive psychological state (job satisfaction) in the workforce.

The Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis provided empirical confirmation for all proposed hypotheses, establishing a significant, interconnected relationship among compensation, work motivation, job satisfaction, and employee performance in the context of Perumda Delta Tirta Sidoarjo.

Work Motivation emerged as the single most dominant factor directly influencing Employee Performance, confirming that intrinsic drives (e.g., desire for development and recognition) are the primary engine for high productivity, consistent with Herzberg's theory in a public sector environment where financial incentives are often regulated.

Compensation also had a significant positive influence on performance (H1 accepted), and a strong, highly significant influence on Job Satisfaction (H3 accepted), underscoring its foundational role in building employee morale and loyalty, especially given the high tenure of many employees. Crucially, Job Satisfaction was validated as a partial and significant mediator for the effects of both Compensation (H6 accepted) and Work Motivation (H7 accepted) on

performance, proving that optimal performance stems from a reinforced psychological state. Descriptively, employees rate their own performance and satisfaction highly, reflecting a conducive HR management environment. However, this strong internal HR finding contrasts sharply with poor macro-level indicators, such as the increasing rate of Non-Revenue Water (NRW) and leakage complaints. This inconsistency leads to the critical conclusion that the main organizational performance deficit is not due to weaknesses in human resource management, but rather to unresolved external technical and systemic factors (e.g., aging pipelines or sub-optimal pressure systems). Therefore, future strategy must be holistic, integrating the existing strength of employee competence and satisfaction with a comprehensive evaluation and overhaul of the technical and operational distribution systems to achieve sustainable performance transformation.

5. Conclusion

This study conclusively found that all proposed hypotheses regarding the influence of Compensation and Work Motivation on Employee Performance, mediated by Job Satisfaction, are positive and statistically significant. The primary finding is the identification of Work Motivation as the most dominant direct driver of performance, and the confirmation that Job Satisfaction acts as a crucial partial mediator, significantly reinforcing the effects of both Compensation and Motivation. The implications suggest that Perumda Delta Tirta Sidoarjo's HR management has fostered a highly motivated and satisfied workforce, yet this individual-level success contrasts sharply with the poor organizational macro performance indicators (rising NRW and leakage complaints). This discrepancy implies that the root cause of the overall performance deficit lies in external technical and structural factors, not HR deficiency. However, the study's limitations include data collection via online questionnaires, raising potential concerns about distractions or hurried responses during a busy work period. Therefore, future strategy must be holistic, leveraging the proven strength of HR systems while urgently prioritizing technical operational overhaul.

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