The Influence of Compensation and Employment Status on Employee Performance with Work Motivation as a Mediating Variable

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ABSTRACT: This study examines the effect of compensation and employment status on employee performance with work motivation as a mediating variable. Research involved 64 employees of DHL Express Indonesia-Surabaya Branch. Data collection used a questionnaire consisting of 37 questions which designed based on previously research and tested for the validity and reliability. The data analysis technique in this study used Partial Least Squares (PLS). The results showed that compensation had an effect on employee performance but not significantly. Employment status had a direct and significant positive effect on employee performance. Compensation had a direct and significant positive effect on work motivation. Work motivation mediates the relationship between compensation on employee performance.

Keywords: Compensation, Employment status, Work Motivation, Employee Performance.

INTRODUCTION

If an organization wants to progress or develop, it is required to have quality employees. Quality employees are employees whose performance can meet the targets by the company. According to Pangastuti, Sukino, & Efendi (2020), employee performance is one of the important elements that must be possessed to improve company performance. Mondy & Martocchio (2016: 187) states that performance is a process that significantly affects organizational success. In today's uncertain employment environment and global competition, where organizations are increasingly dependent on employee productivity, employee performance becomes very important for company management (Piccoli et al, 2017). Therefore, it is important to know what factors affect employee performance for a company. There are several factors that are predicted to affect employee performance, one of which is compensation. According to Milkovich, Newman, & Gehart (2014: 6), compensation is all forms of financial returns, services, and benefits that workers receive as part of an employment relationship. The existence of proper and fair compensation for employees should be able to improve unfavorable attitudes and behavior and affect employee work productivity (Rachmawati, 2008: 144). These changes in attitude and behavior are reflected in a sense of responsibility, loyalty to the company as well as increased motivation and work performance. Grabara (2013) proves that good compensation management will affect employee performance. Darma & Supriyanto (2017) also prove that compensation can increase employee satisfaction and performance at PT Telekomunikasi Indonesia. A study on the effect of compensation on employee performance is very important to do because this topic is still rare in human resource research and gives inconclusive results (Gupta & Shaw, 2014).

In addition, factors that are also predicted to affect employee performance are employment status or worker status. Holtom, Lee, & Tidd, (2002) define employment status as the extent to which the company divides employees into full-time or part-time status, shifts, and number of hours.
Ogunleye & Osekita (2016) say that worker categorization can inspire workers to be more competitive, work harder, catch up, or even excel so that in the end it has a significant effect on work performance. Al & Anl (2016) and Cho & Johanson (2008) prove that part-time employees perform better than full-time employees or permanent employees. Meanwhile, Lee & Johnson (1991) did not find any difference in commitment and performance between part-time and full-time employees. In the context of service companies in Indonesia, employment status can be grouped into employees with an indefinite work agreement (permanent employees) and employees with a certain time work agreement (contract employees). Taking into account the number of employees with contract status in the service industry, it is very important to study the impact of employment status on employee performance.

Moreover, factors that can affect employee performance can also be seen from how motivated employees are at work. According to Hermina, & Yosepha (2019), motivation is a condition or energy that moves an employee who is directed to achieve company goals. With high work motivation, employees will work harder in carrying out their work. On the other hand, with low work motivation, employees do not have morale, give up easily, and have difficulty in completing their work (Harwiki, 2016). Pancasila, Haryono, & Sulistyod (2020) prove that employee motivation has a positive effect on employee performance. Furthermore, Güngör (2011) states that employee motivation can act as a mediator between the compensation system and employee performance. Candradewi & Dewi (2019) and Efendi et al. (2020) proves that compensation has a positive effect on work motivation and furthermore this motivation is able to improve employee performance.

This study takes a sample of employees of the DHL Express company. DHL Express is a well-known company in the shipping services industry with operations in more than 220 countries with more than 570,000 employees making DHL one of the world's leading logistics companies. However, the delivery service industry is a very competitive industry. Therefore, DHL must work harder to stay in the industry. One way that companies can survive in a competitive environment is to ensure that companies can improve service performance and processes in a structured and sustainable way. Reassessing employee performance continuously is very important to do to make employee performance better, every day and everywhere. This ultimately helps create an agile company that is ready to change and can adapt quickly and attentively to changing customer needs. For this reason, DHL Express Indonesia especially the Surabaya Branch requires employee performance appraisals to improve service processes, for decision making, and achieving company goals globally.

In addition to recruiting permanent workers, DHL Express Indonesia also recruits non-permanent workers who are bound by a PKWT (Specific Time Work Agreement) either directly with DHL or through an outsourcing agency. Currently, DHL Express Indonesia is trying to minimize hiring contract employees. This is done by limiting the PKWT contract period to a maximum of 4 years. In the following year DHL always strives for PKWT employees to become permanent employees.
with the assessment factor being the employee's own performance while being a PKWT employee is good. In 2020 DHL Express Indonesia decided to no longer cooperate with outsourcing agencies.

Changes in work status are expected to increase employee motivation, employee performance, and then DHL Express company performance. Judging from the performance of the last 3 years, DHL Express Indonesia Surabaya Branch experienced ups and downs. For incoming and outgoing shipments, it fell from 97.3% in 2019 to 91.4% in 2020, and again increased in 2021 to 94.1%. For transit time, it had deteriorated from 10.9% in 2019 to 11.4% in 2020 but was successfully lowered again in 2021 to 10.2%. For shipments that finished the customs process before the goods arrived in Surabaya, it decreased from 38.29% in 2019 to 33.31% in 2020 and was successfully increased to 54.43% in 2021 (DHL Express Surabaya KPI Scorecard). The rise and fall of the company's performance is very likely to be influenced by compensation, employment status and employee motivation.

Based on the background described above, the researcher is interested in conducting a study entitled "The Effect of Compensation and Employment status on Employee Performance with Work Motivation as a Mediation Variable". This study took the population of employees of DHL Express Indonesia Surabaya Branch

**Employee Performance**

According to Pangastuti, Sukino, & Efendi (2020), employee performance is one of the important elements that must be possessed to improve company performance. This is also supported by Mondy & Martocchio (2016: 187) which states that performance is a process that significantly affects organizational success. Employee performance is the quality and quantity of work achieved by an employee in carrying out functions in accordance with the responsibilities given (Hermina & Yosepha, 2019).

Today many companies are starting to adopt an organizational culture that focuses on results and contributions made by employees. In this context, employee performance will be evaluated and the results communicated to employees on a regular basis so that performance can be improved. Given that most jobs have several elements and inherent complexity it is necessary to create specific job assignments that can identify the important elements in a particular job. Individual performance of their job duties should be measured and compared to appropriate standards. Performance indicators according to Al-Musadieq et al. (2018) there are four, namely quality of work, quantity of work, timeliness, and error rate.

**Compensation**

According to Milkovic, Newman, & Gerhart (2014: 6), compensation is all forms of financial returns, services, and benefits that workers receive as part of an employment relationship. According to Daud (2020), compensation is a form of implementing human resource management functions related to all kinds of awards given to
individuals for the work done. One of the purposes of providing compensation is to create changes in employee attitudes and behavior (Rachmawati, 2008: 144).

Mathis et al. (2017: 403) states that there are several strategic decisions that can guide top management and human resource executives in designing compensation, namely compliance with all applicable laws and regulations, cost effectiveness for the organization, internal and external equity for employees, optimal mix of components compensation, performance improvement for the organization, performance recognition and talent management for employees, as well as increased recruitment, engagement and retention of employees. According to Mathis et al. (2017: 404), the indicators used to measure compensation are direct financial, indirect financial compensation, and non-financial compensation.

**Employment status**

According to Ogunleye & Osekita (2016), the employment status of an employee is the actual rank in the work environment which is sometimes in the form of levels or categorizations. In the Law of the Republic of Indonesia No. 13 of 2003 concerning Employment, stipulates that the status or employment relationship is divided into two, namely Permanent Employees who are bound by a PKWTT (Indefinite Work Agreement) and Non-Permanent Employees who are bound by a PKWT (Specific Time Work Agreement). This relationship or worker status is applied at DHL Express Indonesia Surabaya Branch.

According to Sidanius & Pratto (2001), we live in a world full of benchmarks, categorizations, rankings, and hierarchies. Many managers think that categorizing workers and providing feedback on performance can inspire workers to be more competitive, work harder, catch up, or even excel (Ogunleye & Osekita, 2016). Dessler (2020: 116) states that many contract employees enter into contractual employment in the hope of getting a long-term or permanent job offer. This motivates temporary or contract employees to work harder and improve performance.

**Work Motivation**

Hermina & Yosepha (2019) stated that motivation is a condition or energy that moves an employee who is directed to achieve company goals. Mathis et al. (2017: 416) mentions that there are two theories of motivation, namely expectancy theory and equity theory. Expectancy theory states that employee motivation is based on the probability that his efforts will lead to the expected level of performance associated with rewarded rewards. In particular, this theory emphasizes the importance of finding valuable rewards for employees.

Then, the theory of equity motivation states that individuals assess equity in compensation by comparing their inputs and outcomes to the inputs and outcomes of other people's references.

According to Herzberg's theory of motivation, the best way to motivate someone is to organize work so that doing it will provide challenges and recognition (Dessler, 2020: 391). An employee who has good operational skills but if he does not have the motivation to work, the end result of the work will not be satisfactory (Hermina & Yosepha, 2019). According to Ivancevich, Konopaske, & Matteson. (2017), indicators
of work motivation include psychological needs, security needs, social needs, esteem needs, and self-actualization needs.

**The Influence of Compensation on Employee Performance**

According to Grabara (2013), good compensation management will affect employee performance. This argument is supported by Maslow's theory of motivation (1954) which generally assumes that human needs are hierarchical from the most basic needs to self-actualization. When the level of basic needs has been achieved, a person will move up to the next level, to the level which is the highest self-actualization. Compensation is assumed as the company's efforts to meet the basic needs of employees (Syahreza et al., 2017). By fulfilling these basic needs, it is hoped that it will encourage employee motivation to fulfill needs at a higher level.

In this context, the provision of compensation that can meet the needs at a higher level will be able to encourage employees to further improve their performance as well. Based on these arguments, it can be said that the provision of compensation can positively affect employee performance. Pangastuti et al. (2020) provides evidence that compensation has a significant positive effect on employee performance. Darma & Supriyanto (2017) also prove that compensation can increase employee satisfaction and performance at PT Telekomunikasi Indonesia.

**The Influence of Employment Status on Employee Performance**

According to Ongera & Juma (2015), many employees take temporary or contract jobs as an alternative to the lack of permanent jobs in the hope of getting permanent jobs in the long term. This motivates contract employees to work harder and improve performance (Ongera & Juma, 2015). Furthermore, Ogunleye & Osekita (2016) stated that categorizing workers can encourage workers to be more competitive, work harder, catch up, or even excel. But the opposite can also happen where workers become complacent, obedient, and lose motivation due to ranking and categorization.

People who hold high positions and are given senior positions may think that because they are at the top they don't feel they have to try harder in terms of work performance. On the other hand, low-ranking employees may become depressed about work and may come to the point of giving up. Based on this description, it can be said that job status can affect employee performance. This is supported by research by Nugraha, Hakam, & Susilo (2017) which states that job status has a significant positive effect on employee performance. Al & Anıl (2016) also prove that part-time employees perform better than full-time employees or permanent employees.

**The Effect of Compensation on Employee Performance with Work Motivation as a Mediating Variable**

According to Dessler (2020: 391), compensation can be used to encourage and motivate employees to achieve organizational goals. Then, Mathis et al. (2017: 403) states that an increase in employee motivation can be achieved through compensation. Furthermore, Rachmawati (2008: 144) states that one of the purposes of providing compensation is to
create changes in employee attitudes and behavior. The existence of proper and fair compensation for employees should be able to correct unfavorable attitudes and behaviors and affect employee work productivity.

These changes in attitude and behavior are reflected in a sense of responsibility, loyalty to the company as well as increased motivation and achievement at work. Increased motivation and achievement in work will further affect employee performance. With high work motivation, employees will work harder in carrying out their work. On the other hand, with low work motivation, employees do not have morale, give up easily, and have difficulty completing work (Harwiki, 2016). Candradewi & Dewi (2019) and Efendi et al. (2020) proves that compensation has a positive effect on work motivation, and furthermore this motivation is able to improve employee performance.

The proposed model builds on and extends past research and theory. The proposed model of this research is used to describe the patterns and ways of thinking in this study where in this framework it is described about Compensation, Employment status that affect Employee Performance which is mediated by Work Motivation.

H1. Compensation has a significant positive effect on employee performance.

H2. Employment status has a significant positive effect on employee performance.

H3. Work motivation mediates the influence of compensation on employee performance

RESEARCH METHODOLOGY

Samples
The subjects in this study were all employees of DHL Express Indonesia Surabaya Branch totaling 64 people from the Operations Department which was divided into four divisions, namely Customs Clearance, Gateway Operation, Courier, and Outlet Officer. Data collection in this study consisted of two parts, namely data collection for the instrument test (N=30) and for the large sample test. The data collection method used is by distributing questionnaires through online media, namely google form and filled in directly by the respondents. Data was analyzed by using Structural Equation Modeling with Partial Least Square (PLS)

Characteristics of respondents
Total amount of sample is 64 employees can be classified based on employment status, which consists of 53.1% (34 respondents) permanent employees and 46.9% (30 respondents) non-permanent (contract) employees. Characteristics of respondents based on years of work is 53.1% (34 respondents) more than 5 years, 32.8% (21 respondents) 3-5 years, and 14.1% (9 respondents) 1-2 years.

RESULT AND DISCUSSION

The data was analyzed by Partial Least Square (PLS). The relationship of each variable in this study is presented in Figure 2 below.
The next model's feasibility test is to use $R^2$

<table>
<thead>
<tr>
<th>Table 2. $R^2$</th>
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<tbody>
<tr>
<td></td>
<td>$R^2$</td>
<td>Adjusted</td>
</tr>
<tr>
<td>Employee</td>
<td>0.436</td>
<td>0.408</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work Motivation</td>
<td>0.200</td>
<td>0.187</td>
</tr>
</tbody>
</table>

From the table above, it can be seen that the variability of the endogenous variable employee performance can be explained by 43.6% by exogenous variables and the variability of endogenous variables of work motivation can be explained by 20% by exogenous variables.

The next model's feasibility test is to use $f^2$ value. This $f^2$ value is used to determine the effect of the exogenous latent variable or the independent variable on the endogenous latent variable or the dependent variable. According to (Helen and Wang, 2010) $f^2$ itself is interpreted as a value of 0.02 (weak exogenous variable influence), 0.15 (moderate exogenous latent variable influence) and 0.35 (strong exogenous variable influence).

<table>
<thead>
<tr>
<th>Table 3. $f^2$</th>
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<tbody>
<tr>
<td></td>
<td>$f^2$</td>
<td>Inf</td>
</tr>
<tr>
<td>Employee</td>
<td>0.439</td>
<td>Strong</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work Motivation</td>
<td>0.202</td>
<td>moderate prediction</td>
</tr>
</tbody>
</table>

From the table above, it is known that the Compensation, Work Motivation, and Employee Status variables in explaining changes in Employee Performance are included in the strong criteria. The ability to
explain changes in work motivation by compensation is included in the moderate predictive ability.

The criteria for acceptance or rejection of hypotheses. H0 and H1 are determined using the criteria H0 is accepted or H1 is rejected, if P value 0.05 and H0 is rejected or H1 is accepted, if P value <0.05.

<table>
<thead>
<tr>
<th>Path of Influence</th>
<th>Coefficients Value</th>
<th>P-Value</th>
<th>Inf</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation -&gt; Employee Performance</td>
<td>0.130</td>
<td>0.141</td>
<td>not Sig</td>
</tr>
<tr>
<td>Employment Status -&gt; Employee Performance</td>
<td>0.395</td>
<td>&lt;0.001</td>
<td>Sig</td>
</tr>
<tr>
<td>Work Motivation -&gt; Employee Performance</td>
<td>0.306</td>
<td>0.004</td>
<td>Sig</td>
</tr>
<tr>
<td>Compensation -&gt; Work Motivation</td>
<td>0.447</td>
<td>&lt;0.001</td>
<td>Sig</td>
</tr>
</tbody>
</table>

From the table above, it is known that hypotheses $H1$ can’t be accepted due to the P-value is 0.141 >0.05. $H2$ can be accepted due to the P-Value is 0.001 <0.05. $H3$ can be accepted because of the P-value is 0.001 <0.05, this condition indicates that work motivation has a full mediating role on the effect of compensation on employee performance.

**Discussion**

The results of data analysis show that compensation has no significant effect on employee performance so that the 1st hypothesis in this study is not proven. This finding brings the understanding that if there is an increase in Compensation, then Employee Performance will not increase significantly. Vice versa, if there is a decrease in the value of Compensation, then Employee Performance will also not decrease significantly.

The results of this study are in line with the results of research conducted by Rosalia et al. (2020) who also found that compensation had no significant effect on performance. Workers currently working at DHL Express view it as a logical consequence of the work they do. The compensation from DHL Express does not encourage the performance of the workers because the level of compensation received is only a proof of the bonds and obligations of reciprocity between the company and the workers. The company seems to only design compensation solely to meet the basic needs of the workers as argued by Syarherza et al. (2017), which states that compensation is assumed to be the company’s efforts to meet the basic needs of workers (Syahrreza et al., 2017). So far, the company has not divided and differentiated the roles and work results of the workers to be associated with the addition or reduction of the compensation received by the workers. Workers who in a period have more busy workloads get relatively the same compensation as when their levels of work are loose. For example, in the field of sending orders to consumers in conditions of a busy schedule, the company only adds accommodation costs in the form of gasoline costs but does not provide extra compensation to the workers. In other companies similar to DHL Express, workers will get additional income for each product they send to consumers so that it can spur
employees to move quickly to bring as many goods as possible.

The results of data analysis show that Employee Status has a positive and significant effect on employee performance so that the second hypothesis in this study is proven. This finding is in line with the results of research conducted by Ongera & Juma (2015) which found that the status of contract workers, namely non-permanent employees employed by the company, had a positive and significant effect on employee performance. This is also supported by the results of research by Ogunleye & Osekita (2016) which found that junior workers and tended to have precarious status, showed a better level of performance compared to the performance of senior employees. The opposite result is shown by the research of Nugraha, Hakam, & Susilo (2017) and Picolli et al. (2017) where the results show that the performance of permanent employees shows a better level of performance than non-permanent employees.

The status of a worker is the actual rank in the work environment that makes a worker a permanent status or a temporary status (Ogunleye & Osekita, 2016). This is in line with the regulations in Law no. 13 of 2003 concerning employment which regulates the relationship between companies and workers which includes Permanent Employees who are bound by PKWTT (Indefinite Work Agreements) and Non-Permanent Employees who are bound by PKWT (Specific Time Work Agreements). The findings of the current study are in line with the opinion of Dessler (2020) which states that many contract employees engage in contract work in the hope of getting a long-term or permanent job offer. This encourages temporary or contract workers to work harder and improve performance. This means that workers with non-permanent status if managed in such a way by company management, these temporary workers will show better performance.

The results of data analysis show that work motivation mediates the effect of compensation on employee performance in full, so the third hypothesis in this study is proven. That is, if the effect of compensation on performance can be enlarged its effect on employee performance if the compensation can simultaneously encourage work motivation. That is, the effect of compensation that significantly affects motivation will jointly become a real driver of significantly increasing employee performance.

The results of this study are in line with the results of research conducted by As'at and Subyantoro (2020) which found that motivation has a mediating role in the relationship between compensation and employee performance. The mediating role shows that the direct effect of compensation on performance will be even greater if the effect of compensation can encourage employee motivation. Compensation refers to all payments in the form of money, in the form of commodities which are equated with money as payments for workers (Daft, 2003 in As'at and Subyantoro, 2020). This is also in line with the opinion of Bernadin (2007, in As'at and Subyantoro, 2020) which states that compensation refers to all forms of financial benefits and other tangible benefits received by workers as part of the company. Workers who have been less concerned about their personal performance while working in the company, should be motivated that the company's profits are also an advantage for the workers so that workers are motivated to carry out their duties for the benefit of the company. This motivation will cause workers to be willing to work more for the benefit of the company in developing business. In other words, compensation whose direct effect is not significant will have a significant effect on performance if this compensation is directed to high motivation during work.

CONCLUSION
Based on the data analysis and research results that have been described in the
previous section, the things that can be concluded in this study are:

1. Compensation has no positive and significant effect on employee performance. This means that an increase or decrease in the amount of compensation given to employees does not affect the increase or decrease in employee performance at DHL Express Indonesia Surabaya Branch.

2. Employment Status has a positive and significant effect on Employee Performance. This means that an increase or decrease in the number of non-permanent employees has a positive and significant effect in encouraging or decreasing the level of employee performance at DHL Express Indonesia Surabaya Branch.

3. Motivation has a full mediating role on the effect of compensation on employee performance. That is, an increase in motivation is needed to further encourage the creation of a better Employee Performance DHL Express Indonesia Surabaya Branch. Partial direct effect of compensation is important for improving employee performance but increasing employee performance will be more pronounced when at the same time good work motivation is created for workers.

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