

## **Effect of Compensation on Motivation, Organizational Commitment and Employee Performance (Studies at Local Revenue Management in Kendari City)**

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**ABSTRACT :** *This study purposes are to test and demonstrate empirically effect of compensation on motivation, organizational commitment on employee performance, motivation on organizational commitment and employee performance, organizational commitment on employee performance. Study population is employees who work at Local Apparatus Work Unit (LAWU) at Local Revenue Management in Kendari as many as 1,394 employees. Study samples are 126 employees that selected by random sampling method with proportional area. Data analysis used is SEM (Structural Equation Model). This study results indicate that compensation has significant effect on motivation and organizational commitment, but does not have significant effect on employee performance. Organizational commitment and motivation have significant effect on employee's performance, as well as a significant effect of organizational commitment on employee performance. In addition, this study found that compensation can not directly improve employee performance, but able to increase motivation and strengthen organizational commitment. Motivation gives a strong effect on relationship between compensation and employee performance than between motivation and organizational commitment or through organizational commitment only.*

**KEYWORDS:** *Compensation, Motivation, Organizational Commitment, Employee Performance.*

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### **I. INTRODUCTION**

Indonesia Republic Constitution Year 1945 has mandated autonomy within Indonesia Republic. We need a fair and consistent regulation for financial relations pattern, public services, utilization of natural resources and other resources between central and local governments. Central and local financial relations in line with the principles of financial balance between central and local government as outlined in Act No. 33 year 2004. Financial balance between central and local government is a system of fair financial sharing, proportionate, democratic, transparent, and efficient in funding of decentralization, taking into account potential, condition, and local needs, as well as amount of decentralization funding and assistance task. Provision of State financial resources to local governments is carried out in decentralization framework. It based on transfer task from central government to local governments to pay attention to stability of national economy and fiscal balance between central government and local governments. Development of Fiscal Balance Act between Central and Local Government funding is intended to support transfer to local governments as stipulated in Law No. 32 Year 2004 on Local Government. This adheres principle of money follows functions. It implies that funding follows government function with duty and responsibility of each government level. In order to ensure an efficient and effective governance and to avoid overlap or lack of government funding in field of regulated financial governance, governance that become local authority areas is funded from Local Expenditure and Revenue Budget (APBD)

Local Revenue is one form income in implementation decentralization and local autonomy. It is local income and is collected by local regulations in accordance with laws and regulations that consist of:

- [1] Local Tax
- [2] Retribution
- [3] Results of separated Regional Wealth Management
- [4] Other legitimate revenue source.

Results of separated Regional Wealth Management are income from wealth management that separated from APBD. If this wealth management creates earning, this earning can be included as a source of Local Revenue. Other legitimate revenue source is local income were not included in local taxes, levies, and results from separated local wealth management and is also one of Local Revenue. Local Revenue Management role in government organization currently is considered very important. Local government progress indicator can be

measured from ratio of Local Revenue from local budget as a whole and this will have an affect on amount of public expenditure.

Various tips and strategies must be prepared to increase capacity and quality of human resources. Organization that developed naturally is produced by employees who can manage organization's progress to become desired organization. Adversely, many organizations fail because of failures to manage human resources. Staff performance of Local Revenue management is very importance and strategic. If they had been carrying out duties and responsibilities properly, it will have an affect on performance of local government organizations. High employee performance means an increase in efficiency, effectiveness or higher quality to complete a series tasks assigned to employee in organization. Staff performance of Local Revenue management is believed affected by compensation, motivation and organizational commitment that ultimately will affect on organization performance as a whole. One company goal to give employees welfare is by providing compensation to retain employees to work (Gibson, 1996). Employee's compensation affects their productivity and their tendency to seek employment to other organization. If employees see that hard work and superior performance is recognized and rewarded by organization, they will increase higher performance with a hope to obtain a higher compensation level (Simamora, 1997). Dissatisfaction to compensation may lead to performance degradation, increasing degree of absenteeism, and employee turnover (Mangkuprawira, 2003). Furthermore, Werther and Davis (1996) in Wibowo (2010) states that there is compensation in incentive system that links compensation to performance. Compensation is granted to employees based on performance and not on seniority or number of work hours.

Research result of by Ghazanfar et al. (2011) showed that satisfaction with compensation has strong and significant effect on work motivation. Flexible pay (incentives, overtime, bonuses) and benefits has positive effect but insignificant on workers motivation. Research by Vecchio et al. (2010) found that pay variable significantly affects on motivation intrinsic of salesperson in California. Khan and Mufti (2012) show relationship between Effort, Performance and Motivation is very weak, negative and insignificant. Relationship between Performance Outcome and Motivation is in significant. Relationship between Outcome Valence (fixed pay, flexible pay, benefits) and Motivation is a powerful, positive and significant. Igalens and Rousell (1999) examine relationship between work motivation and compensation for working comfort. Results show: 1) under uncertainty conditions, individual compensation can become a factor to increases work motivation. 2) Flexible pay of specific workers can not motivate and increase job satisfaction. 3) Benefits from specific workers can not motivate and increase job satisfaction.

One aspect of employee is motivation giving (power stimulant) to employees, with popular as giving employees spirit to work. Every employee who gave useful possibilities into organization is arranged by leadership to realize that. Effort to realize these possibilities is using motivation. Motivation is intended to give power to employee in order work with his own efforts (Manulang, 2002). According to Liang Gie et al. (in Matutina et al, 1993), work that performed by one manager in providing inspiration, enthusiasm, and encouragement to others (employees) will take such measures. Giving encouragement is intended to remind people or employees so they are excited and can achieve desired result. Therefore, a manager is demanded to know or understanding the nature and characteristics of employees. It requirement is based on mastery motive manager on behavior and actions are limited the motive, then manager can affect subordinates to act in accordance with organization wishes. Motivation basically is a process to try to affect someone to do what we want to do (Martoyo, 2000). In other words, it is beyond encouragement of someone to carry out something. Encouragement (driving force) meant a natural urge to satisfy life need, and a tendency to sustain life. Most important key is a deep understanding of human beings. As said by Liang Gie in Martoyo (2000), motive or impulse is an impulse that became base for a person to do something or working, highly motivated, namely those who carry out substantial efforts in order to support the objectives of production work unit, and organization where he works. A person without motivation only gives minimum effort to work. Research results of Choong, Y et al. (2011) showed that an intrinsic motivation affect significantly on organizational commitment. Nawab and Bhatti, (2011) found that employee compensation positively and significantly affect on organizational commitment.

Research of Paik, Y. S. et al (2007) found positive and significant relationship between compensation received by Korean workers expatriate and Mexico local workers on affective commitment, where for continuance commitment was not significant. Organizational commitment has positive effect on worker performance. Anvari et al. (2011) indicate that there is a positive and significant relationship between practical compensation strategies with organizational affective commitment. Research of Gungor (2011) examines relationship between application of rewards management system and worker performance with motivation as intervening variable in Istanbul bank. Research results found that Financial Reward has a positive and

significant effect on employee performance, motivation has a positive effect on employee's performance, and reward management system relatively does not positive effect on motivation.

Javed et al. (2010) examined relationship between compensation and performance. This study results show that compensation has significant effect on organization performance. Research by Siswanto (2001) examines effect of compensation on motivation and lecturer performance at Economics Faculty at some private colleges in Kediri. Study results show: 1) financial and non-financial compensation significantly affect on work motivation of lecturers. 2) Financial and non-financial compensation and intrinsic motivation have a significant effect on lecturer performance. **Committed employees are more ready to achieve organizational goals than non committed employees.** It is effect of commitment on performance (Tubbs and Dahl, 1991). Robbins and Judge (2007) defines commitment as a situation where an individual consistent with organization as well as the goals and wishes to maintain his membership within organization. Psychological approach was first conceptualized by Smith (1993) which states that commitment is an active and positive orientation to organization. Tubbs & Forehead, (1991) describes commitment affect on performance, with assumption that committed workers are more readily to achieve organizational goals than non commit workers.

Furthermore, Richard M. Steers in Sri Kuntjoro (2002) defines organizational commitment as a sense of identification (confidence in organization values), involvement (willingness to try my best in interests of organization) and loyalty (desire to remain a membership of organization) that expressed by employees. Steers believes that organizational commitment is a condition where employees are very interested in goals, values, and goals of organization. Commitment to organization means more than just a formal membership, because it includes attitude and willingness to seek a high level of effort for organization to achieve organizations goals. Research of Feng (2010) analyze lecturers performance, and identified four variables: organizational commitment, job stress, mental health, motivation to achieve performance. Research results found that organizational commitment has positive and significant effect on lecturer performance. Job stress does not affect on lecturer performance, mental health does not affect on lecturer performance. Motivation affect on lecturer performance.

Research of Samad (2011) found that there is a positive and significant relationship between organizational commitment and job performance. Hierarchy analysis found that job satisfaction (hygiene and motivational factors) have moderation effect in relationship between organizational commitment and job performance. Khan et al (2011) sought to examine effect of organizational commitment on employee job performance. Study found that there is a positive and significant relationship between organizational commitment and workers job performance. Rod et al. (2010) found that commitment has significant effect on employee performance.

Research of Chong. K et al (2007) tried to assess effects of information asymmetry on Organizational commitment in relation to confidence level of incentive - based compensation schemes and managerial performance. Research results showed that manager's performance level with high organizational commitment does not affected by information asymmetry level in relation with confidence level incentive-based compensation schemes. Employee performance is a result of one's work in carrying out tasks assigned to him based on skills, experience, and determination as well as the (Hasibuan, 2000). Mangkunegara (2000) stated that performance is result of work quantity and quality work achieved by an employee in carrying out their duties according to responsibility given to him. Briefly, performance was a combination of three important factors: ability and interest of a worker, ability and acceptance to task delegation explanation and worker role.

Motivation relationship with performance by Keith Davis in Mangkunegara (2004) describes equation formulation of how relationship between performance with motivation and ability. Gibson et al. (1994) argued that employee's performance is result of work achieved by the individual in relation to his position in organization. Previous research results on motivation and employee performance as performed by Nawab et al. (2011), Javed et al. (2011), and Kaymaz et al. (2011) where motivation significantly affect on employee performance . Adversely, Remi at al. (2008) show that motivation has no significant effect on employee performance. Mensah et al (2011) examined relationship of performance-based pay as a tool for employee performance motivation. This study results indicate that relationship between the two variables above are small.

Other studies related to motivation were conducted by the Forest (2008). This study explains that in French civil service, public officials pay is based on their performance, and show how these individual payroll practices can take place in long term and reduce motivation to services of civil servants. This study also examines performance as process used by organizations to evaluate working implementation of individual

employee. Performance feedback lets employees to know how well they work compared to standards organizations. If performance appraisal is done properly, employees, their personnel, human resources department, and eventually organization will get benefit by ensuring that individual efforts contribute to strategic focus of organization. In modern organizations, the performance is an important mechanism for management to explain objectives and performance standards, to motivate individual performance in next time. Assessment of performance becomes decisions basis to affect salary, promotion, dismissal, training, transfers and other employment conditions, (Simamora, 2004). Several previous studies on compensation, motivation, organizational commitment, and employee performance do not yet linking the variables in an integrated and comprehensive research; and there are differences measurement and analysis methods and findings. This study purpose is to analyze with integrated and comprehensive manner the usage of motivation and organizational commitment to mediating compensation and employee performance of Local Revenue Management in Kendari City.

### Conceptual Framework and Hypotheses

One company goal to welfare employees is providing compensation to make employees constantly work (Gibson, 1996). Employee's compensation affects their productivity and their turnover tendency. If employees see that hard work and superior performance is recognized and rewarded by organization, they will increase performance with hope to obtain a higher level of compensation (Simamora, 1997). . Liang Gie in Martoyo (2000) said that motive is an impulse that became the reason for someone to do something or work. Highly motivated employee is those who carry out substantial efforts in order to achieve objectives of production work unit, and organization where he works. Non motivated employee only gives minimum effort to work. Every employee who gave useful possibilities into organization is arranged by leadership to realize that. Effort to realize these possibilities is using motivation. Motivation is intended to give power to employee in order work with his own efforts (Manulang, 2002).

Committed employees are more ready to achieve organizational goals than non commit employees. It is effect of commitment on performance (Tubbs and Dahl, 1991). Robbins and Judge (2007) defines commitment as a situation where an individual consistent with organization as well as the goals and wishes to maintain his membership within organization. Psychological approach was first conceptualized by Smith (1993) which states that commitment is an active and positive orientation to organization. Tubbs & Forehead, (1991) describes commitment affect on performance, with assumption that committed workers are more readily to achieve organizational goals than non commit workers.

Employee performance is a result of one's work in carrying out tasks assigned to him based on skills, experience, and determination as well as the (Hasibuan, 2000). Mangkunagara (2000) stated that performance is result of work quantity and quality work achieved by an employee in carrying out their duties according to responsibility given to him. Based on problem formulation and research objectives, this dissertation is directed to examine and analyze Effect of Compensation on Motivation, Commitment Organizational, and Employee Performance. This concept development is based on relevant theories and previous studies. Framework of this study is shown in Figure 1 below.

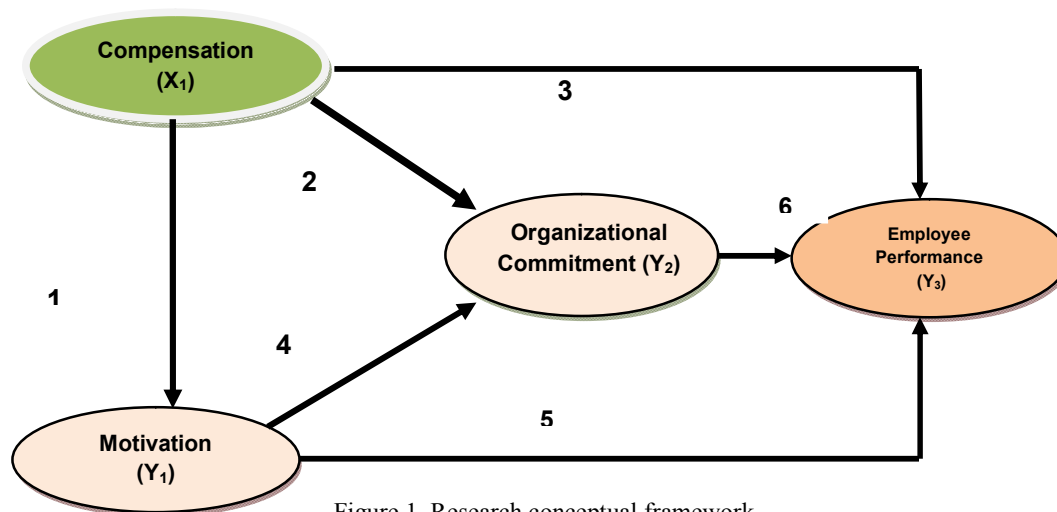


Figure 1. Research conceptual framework

Based on background and literature review that has been described, the next step is hypothesis preparation. This study uses 6 direct effect hypotheses and 4 indirect effect hypothesis as described below.

One person need is to get proper compensation. Anthony et al. , (2000) defines compensation as mechanism that encourages and motivates managers to achieve organizational goals. Motivation is high willingness to make efforts for organizational goals, conditioned by ability to satisfy individual needs. Robbins (1991) suggested that motivation is: “.... *The willingness to exert high levels effort toward organizational goals, conditioner by the effort's ability to satisfy some individual need*”. Expectancy theory of Vroom (1964) says that employees will be motivated to make high level of effort when they are confident that these efforts will result in a good performance appraisal, good judgment will result organizational rewards such as bonuses, and increase in employee benefits, or promotion and these awards will satisfy personal goals of employees. Results of research on compensation and motivation by Ghazanfar et al. (2011), Khan and Mufti (2012), Ingalsen and Rousell (1999), and Rasheet (2010) show that compensation has significant effect on motivation. This study results are based on expectancy theory of Vroom (1964). Therefore, hypothesis can be stated as follows:

H1: Compensation increase can strengthen motivation

Organizational commitment implies a sense of identification, engagement, and loyalty / fidelity. Nature of one's relationship to organization is indicated by consistence with an organization's goals, keen to maintain membership in organization, willingness to try your best in organization interest, trust and strong acceptance to values and goals of organization (Gibson, Ivancevich, and Donnelly, 1982). Previous studies result on effect of organizational commitment on compensation that proposed by Anvari et al. (2011), Nawab and Bhatti. (2011), Paik, Y. S. et al (2007), Rashid et al. (2003); Susanto (1997), Steers (1998) show that compensation has a significant effect on organizational commitment. The results of this study are based on equity theory of Adams (1965), two - factor theory of Herzberg (1959). Therefore, hypothesis can be stated as follows:

H2: Compensation increase can strengthen Organizational Commitment.

Robbins (1996) says that people do what they do to achieve goal. Before they work, they look for salary and benefits. There are many types of rewards, for example: increase of salary, employee benefits or preferred job assignments. All types of rewards are controlled by organization. Lawler III. et al. in Dunette and Hough (1992) says that important role of organizational control (discretion under control) is through rewards control to influence employee behavior. Robbins (1996) consistent with Gibson (1996) to divides two types of benefits in form of extrinsic and intrinsic rewards. Robbin further divide extrinsic rewards as follows: a. Direct Compensation, b. indirect compensation, c. non money reward. Compensation as bonuses based solely on total company profit or business unit profit, or some mixture of two bonuses to connect the unit to performance of manager 's decision and actions are more have direct effect of his own unit to work on other business units (Anthony et al. , 2000) Javed et al. (2010) stated relationship of employee performance to compensation is positive. Collins et al. (2005) also found that HR effective practices affect on employee performance. Teclemichael and Soeters (2006) has found that compensation significantly affect on employee performance. Description from Javed (2010), Gungor, et al. (2011), Gibson (1996), Marwat et al. (2009) show a positive effect between compensation and employee performance. This is supported study of Collins et al (2005) ; Teclemichael and Soeters (2006) ; Ines et al. (2010), John et al. (2003) ; Shon et al. (2009) ; Javed et al. (2010), Gungor, et al. (2011), Marwat et al. (2009), Soeters et al. (2006) which states that compensation has a positive effect on employee performance. The results of this study are based on Vroom's expectancy theory, path - goal model and social cognitive theory. Therefore, hypothesis can be stated as follows:

H3: Compensation increase can improve employee performance.

Herzberg et al. (1959) in Tietjen and Myers (1998) has argued that employee work motivation can be understood as employee's attitude. That is, internal concept of attitude is derived from state of mind, if state of mind is concerned, manager will get information about pragmatic motivation of workers. Motivated workers will give a boost involvement in various activities to achieve organizational commitment. Mowdey, Porter & Steers (1982) imposes organizational commitment limits as relative strength of an individual to identify himself into part of organization's involvement. It can be characterized: acceptance of organization values and goals, readiness and willingness to strive on behalf of organization, and desire to maintain membership in organization (being part of organization). Previous research result on motivation and organizational commitment was proposed by Kanchana et al. (2011), Daif and Yusop (2011). These study tries to apply a model of Commitment to Change (C2C) from Herscovitch and Meyer (2002) and Raza et al. (2011), Choong Y. et al. (2011) that motivation significantly affect on organizational commitment. Therefore, hypothesis can be stated as follows:



H4: Stronger motivation can strengthen Organizational Commitment.

Keith Davis in Mangkunegara (2004) describes an equation relationship between performance and motivation and ability. Gibson et al. (1994) argued that employee's performance is work result that achieved by individual in relation to his position in organization. Meanwhile, Kast et al. (2002) explain entire performance of business organization objectives. For lower level managers, performance is helping to achieve overall target mission. Organizational task of each management unit is to achieve measurable performance with criteria relevant. Previous research on motivation and employees performance was done by Nawab et al. (2011), Akuoko and Donkor (2012), Sofat (2012), Kaymaz et al (2011), Menshah et al. (2011) that motivation significantly effect performance. This study results are based on Vroom's expectancy theory, equity theory (Adams, 1965), Need - Hierarchy Theory (Maslow, 1943). Therefore, hypothesis can be stated as follows:

H5: Stronger motivation can improve employee performance.

Organizational commitment is related to one total involvement to organization, both cognitive and affective. Cognitive engagement includes views or one perception to organization which then guides relevant interested and accept values, goals and objectives of organization, and from here then continues to affective involvement that manifests itself in form of a desire and willingness to do best for organization, including together with organization. Worley (2005) said that within organization's life, commitments can obtained from several levels of organization, including employees who directly involved and upper or middle level managers. Involvement in work will improve performance. Research results show organizational commitment affect on employee performance. It is supported by findings of Samad (2011). This study adopts Herzberg's duality theory, Khan et al (2011), Rod et al. (2010), Park et al. (2006), which concluded that there is significant relationship between organizational commitment and employee performance. Based on study, theory and empirical description above, high commitment organizational affect to increase employee performance. Therefore, hypothesis can be stated as follows:

H6: Stronger organizational commitment can improve employee performance.

Direct effect hypothesis can be used as a basis to determine indirect effect. This study proposed five indirect effect hypotheses as follows.

- H7. Compensation affect on Organizational Commitment through Motivation
- H8. Compensation affect on Employee Performance through Motivation
- H9. Compensation affect on Employee Performance through Organizational Commitment
- H10. Compensation affect on Employee Performance through Motivation and Organizational Commitment
- H11. Motivation affect on Employee Performance through Organizational Commitment

## **II. RESEARCH METHODS**

This research is research explanatory type. An explanatory study generally aims to explain position of variables studied and effect of one variable to another variable (Sugiyono, 2002). The research location is Kendari in Southeast Sulawesi Province with research object is Local Revenue (LR) in Kendari. Research period is 3 months. This study population are Local Revenue management in Kendari as many as 1,394 people that scattered in several LAWU. Samples selection for each LAWU/ Local Agencies are conducted by proportional random sampling technique. That is LAWU/Local Agencies be numbered based on samples number proportion of each LAWU/Agencies. Total respondents are 126. This study used Likert scale measurement. Primary data is obtained directly from respondents those employees in Local Revenue (PAD) Kendari through questionnaires that distributed and completed by respondent. Addition of secondary data also obtained from Local Revenue Management in Kendari or related institutions and relevant to research needs. Data is analyzed by Structural Equation Model (SEM) using AMOS 16 software.

## **III. ANALYSIS AND RESULTS**

### **SEM Assumptions Test**

Data outliers test was done by Mahalanobis method and if distance is significant ( $p < 0.05$ ), then data is outliers. The analysis showed that all indicators have a range values that within reasonable limits, because data used in this study is ordinal data, which has a range of values 1 to 5. That is, all the data is still in range of Likert value or range of reasonable values. Normality multivariate distribution test was done by looking at value of Critical Ratio (CR). If the value of Critical Ratio (CR) is no greater than  $z_{critical} = \pm 1.96$ , it can be said that data is not normal distribution with an error rate of 5 %. Analysis shows value of  $CR = 2.381$ , thus  $CR > z_{critical}$ .

So data is not multivariate normal distribution. However, if taken 1 % error rate ( $z_{\text{critical}} = 2.58$ ), it can be said that data are multivariate normal distribution. Thus it can be used to perform SEM multivariate analysis.

Linearity assumption was tested by Curve Fit method using SPSS 20.0 software. Analysis showed that all relationships among variables in structural model is linear, so linearity assumption in SEM analysis is fulfilled

- [1] SEM results can be said as fit if they are supported by empirical data, where only fit model that can explain results. Determining whether a model is fit or not will require various models test with a typical test criteria. SEM model test criteria used were Chi - Square, CMIN / DF, GFI, AGFI, TLI, CFI and RMSEA, with following decisions:
- [2] Chi- Square Statistic ( $X^2$ ) is 84.258 ( $p = 0.000$ ). That is, the model SEM is good, because level of probability is less than 0,050.
- [3] Value cmin / df was 1.819 where less than 2,000. This means that criteria cmin / df is good, because there are indications that model and data was fit.
- [4] Goodness of Fit Index (GFI) both figures above show good model requirements (0,900). GFI calculation result is equal to 0.906. This means that model is good (better fit) because of its GFI values greater than 0.900 ( $0.906 \geq 0.90$ ).
- [5] Adjusted Goodness of Fit Index (AGFI) shows the results of above conditions are not good models for AGFI  $0.847 < 0.900$ .
- [6] Tucker Lewis Index (TLI) is 0.948 which is close to value of requirements model (0.950). Thus by TLI indicators show the model approach is good.
- [7] Comparative Fit Index (CFI) is 0.962 or above the model requirements of 0.950. Thus indicators is a good model.
- [8] Root Mean Square Error of Approximation (RMSEA) is 0.081 which is close to 0.080. Therefore, based on indicators RMSEA, the model was good.

Factor loading value indicates the weight of each indicator as a measure of each variable. Indicator with a large factor loading indicates that indicator is strongest (dominant). Goodness of fit test for overall model of three indicators of compensation is significant to measure compensation ( $X_1$ ) with ( $X_1.2$ ) is dominant. Three indicator of motivation is significant to measure motivation achievement variable with Disabilities ( $Y_1.1$ ) is dominant indicator. Three indicator of Organizational Commitment is significant to measure Organizational Commitment ( $Y_2$ ) and Affective ( $Y_2.1$ ) is dominant indicator. All three indicators of employee performance is a significant to measure employee performance ( $Y_3$ ) and Time ( $Y_3.3$ ) is dominant indicator.

### Results of Hypothesis Testing

Hypothesis testing result using Structural Equation Modeling (SEM) revealed that five hypotheses is significant and one hypothesis is insignificant. Hypothesis testing is done by looking at standard coefficient values of t test and significance relationship of independent variables and dependent variable partially. Hypothesis testing results are shown in Table 1 below.

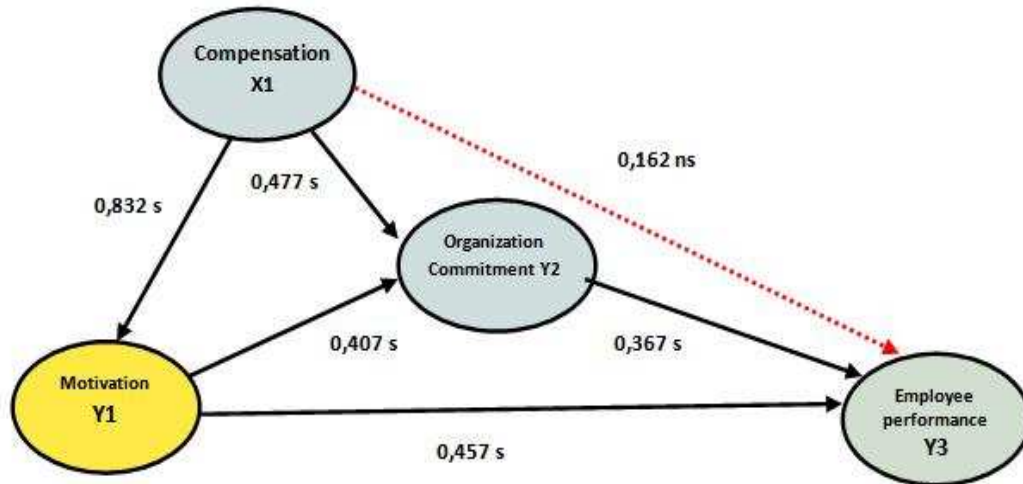
Table 1 Hypothesis Testing Results

Independent Variable	Dependent Variable	Path Coefficient	P- Value	Description
Compensation ( $X_1$ )	Motivation ( $Y_1$ )	0,832	<0,001	Significant
Compensation ( $X_1$ )	Organizational Commitment ( $Y_2$ )	0,477	0,004	Significant
Compensation ( $X_1$ )	Kinerja Pegawai ( $Y_3$ )	0,162	0,294	Insignificant
Motivation ( $Y_1$ )	Organizational Commitment ( $Y_2$ )	0,407	0,012	Significant
Motivation ( $Y_1$ )	Employee Performance ( $Y_3$ )	0,457	0,002	Significant
Organizational Commitment ( $Y_2$ )	Employee Performance ( $Y_3$ )	0,367	0,001	Significant

Sources: Primary data (processed) 2012 (Appendix 6)

Model relationship between independent and dependent variable are presented in Figure 2.

Figure 2. Diagram of Path Hypothesis Test



Description: s = Path significant, ns = non-significant path

Path coefficient the direct effect of Compensation on Motivation is 0. 832 with p-value = 0. 001. Because p - value < 0. 05, then hypothesis H1 is accepted. Positive and significant coefficient means that relationship between the two variables is unidirectional and meaningful. This means higher compensation will significantly increase employee motivation of Local Revenue Management in Kendari. Path coefficient the direct effect of compensation on organizational commitment is 0. 407 with p - value = 0. 004. Because p - value < 0. 05, then hypothesis H2 is accepted. Positive and significant coefficient means that relationship between the two variables is unidirectional and meaningful. This means that higher compensation will increase organizational commitment Local Revenue Management in Kendari. Path coefficient the direct effect of employee compensation on performance is 0. 162 with p - value = 0. 294. Because p - value > 0. 05, then hypothesis H3 is rejected. Coefficient is positive but insignificant means that relationship between the two variables in same direction but not significant. This means higher compensation will improve employee's performance of Local Revenue Management in Kendari, but the increase is insignificant.

Path coefficient the direct effect of Motivation on Organizational Commitment is 0. 407 with p - value = 0. 012. Because p - value < 0. 05, then hypothesis H4 is accepted. Positive and significant coefficient means that relationship between the two variables is unidirectional and meaningful. This means motivation increase will increase Organizational Commitment of Local Revenue Management in Kendari. Path coefficient the direct effect of employee performance is 0. 457 with p - value = 0. 002. Because p - value < 0. 05, then hypothesis H5 is accepted. Positive and significant coefficient means that relationship between the two variables is unidirectional and meaningful. This mean higher motivation will significantly improve employee performance of Local Revenue Management in Kendari. Path coefficient the direct effect of Organizational Commitment on employee performance is 0. 367 with p - value = 0. 011. Because p - value < 0. 05 then hypothesis H6 is accepted. significantly. This means higher Organizational Commitment will significantly increase employee performance of Local Revenue Management significantly.

Table 1 below will show indirect effect between variables study.



Table 1. Indirect effect between Research Variables

Independent Variable	Dependent Variable	Intervening Variable	Path Coefficient	Description
Compensation (X <sub>1</sub> )	Organizational Commitment (Y <sub>2</sub> )	Motivation (Y <sub>1</sub> )	0,338	Significant
Compensation (X <sub>1</sub> )	Employee performance (Y <sub>3</sub> )	Motivation (Y <sub>1</sub> )	0,380	Significant
		Organizational Commitment (Y <sub>2</sub> )	0,175	
Compensation (X <sub>1</sub> )	Employee performance (Y <sub>3</sub> )	Motivation (Y <sub>1</sub> ) And Organizational Commitment (Y <sub>2</sub> )	0,124	Significant
Motivation (Y <sub>1</sub> )	Employee performance (Y <sub>3</sub> )	Organizational Commitment (Y <sub>2</sub> )	0,149	Significant

Source: Primary Data Processed, 2012 (Appendix 6)

Table 1 show indirect effect between variables in this study, namely:

- [1] Indirect effect of Compensation (X<sub>1</sub>) on Organizational Commitment (Y<sub>2</sub>) through Motivation (Y<sub>1</sub>) is equal to 0. 338 and significant. This means that motivation increase can significantly strengthen organizational Commitment that triggered by high compensation at Local Revenue Management in Kendari.
- [2] Indirect effect of compensation (X<sub>1</sub>) on employee performance (Y<sub>3</sub>) through Motivation (Y<sub>1</sub>) is equal to 0. 380 and significant. This means employee motivation increase can significantly improve employee performance that triggered by presence of high compensation at Local Revenue Management in Kendari.
- [3] Indirect effect of compensation (X<sub>1</sub>) on employee performance (Y<sub>3</sub>) through Organizational Commitment (Y<sub>2</sub>) is equal to 0. 175 and significant. This means higher Organizational Commitment can significantly improve employee performance that triggered compensation at Local Revenue Management in Kendari.
- [4] Indirect effect of Compensation (X<sub>1</sub>) on employee performance (Y<sub>3</sub>) through Motivation (Y<sub>1</sub>) and Organizational Commitment (Y<sub>2</sub>) is equal 0. 124 and significant. This suggests that higher motivation and Organizational Commitment can significantly improve employee performance triggered high compensation at Local Revenue Management in Kendari.
- [5] Indirect effect of motivation (X<sub>1</sub>) on employee performance (Y<sub>3</sub>) through Organizational Commitment (Y<sub>2</sub>) is equal to 0. 149 and significant. This indicates higher Organizational Commitment can significantly improve employee performance that triggered motivation increase at Local Revenue Management in Kendari.

#### IV. DISCUSSION OF RESULTS

##### Effect of Compensation on Motivation

Analysis results the direct effect of compensation on Motivation show positive and significant path coefficient. This suggests that compensation affect on motivation. Positive path coefficient means that there is unidirectional relationship between compensation and motivation. Compensation with indicators of salary, incentives and benefits will increase motivation at Local Revenue Management in Kendari. This study finding reinforces expectancy theory of Vroom (1964) which says that employees will be motivated to expend high

levels effort when they are confident that these efforts will result good performance appraisal. These results are consistent with previous studies of Ghazanfar et al. (2011), Vecchio et al. (2010), Khan and Mufti (2012). Adversely, of this study are inconsistent with Igalens and Rousell (1999) that flexible pay and benefits can not motivate employees.

#### **Effect of Organizational Commitment Against Compensation**

Analysis results the direct effect of Compensation on Organizational Commitment show significant and positive path coefficient. This suggests compensation affect on Organizational Commitment. Positive path coefficient means that there is a relationship between the directions of Compensation with Organizational Commitment. Compensation with indicator of salaries, incentives, and benefits will have strong effect on Organizational Commitment at Local Revenue Management in Kendari. This study finding reinforce equity theory (Adam, 1965) that if employee receive same compensation as others for similar contributions, employees will believe that they are treated fairly and deserve. This study finding reinforce two - factor theory (Hertzberg, 1959) that job satisfaction as a function of motivators that provide job satisfaction and hygiene. These results are consistent with results of by Anvari et al. (2011), Nawab and Bhatti. (2011), Armstrong and Murlis (1994). Adversely, Paik, Y. S. et al (2007) found a gap compensation received by Korean workers expatriate and local workers of Mexico increase affective commitment, and but for continuance commitment was not significant.

#### **Employee Compensation Effect on Performance**

Analysis results the direct effect of compensation on employee performance show positive but insignificant path coefficient. This suggests that relationship between compensation and employees performance in same direction but insignificant. Higher compensation makes employee's performance of Local Revenue Management in Kendari will increase but the increase is not real. Interviews result with some respondents who became Local Revenue Management show they felt less meet expectations, does not correspond to work hard that has been done in order to increase Local Revenue. Basis of calculation of employee compensation was complained in this case because of perceived unfair compensation calculation system based on job title or job. This study finding do not support expectancy theory (Vroom, 1964) which says that employees will be motivated to expend high levels of effort when they are confident that these efforts will result a good performance appraisal, good judgment will resulted in organizational reward. This study result support research of Ryan et al (2003). Instead, this results are inconsistent with results study of Javed et al. (2010), Gungor, et al. (2011) Marwat et al. (2009), Soeters et al. (2006), Ines et al. (2010), John et al. (2003), Rashid et al, (2003) that there is a positive and significant relationship between compensation and employee performance.

#### **Effect of Motivation on Organizational Commitment**

Analysis results the direct effect of Motivation on Organizational Commitment show significant and positive path coefficient. This suggests that motivation affect on Organizational Commitment. Positive path coefficient means that there is a relationship between directions of Motivation with Organizational Commitment. Motivational with indicators of Achievement Requirements, Needs and Requirements Power Affiliated will strengthen Organizational Commitment at Local Revenue Management in Kendari. This study finding reinforce theory of Luthans (1996) that individual commitment is demonstrated by her involvement in organization, particularly believe or trust to organization goals and values, helping businesses to achieve organizational goals. This study support previous research of Daif and Yusop. (2011), Kanchana et al. (2011), and Choong Y et al. (2011).

#### **Effect of Employee Motivation on Employee Performance**

Analysis results the direct effect of motivation on employee performance values show significant and positive path coefficient. This suggests motivation affect on employee performance. Positive path coefficient means that there is a unidirectional relationship between motivation and employee performance. Motivation with indicator of achievement need, affiliation need and power needs have high effect on employee's performance of Local Revenue Management in Kendari. This study finding reinforce earlier theories as equity theory (Adam, 1965) that if employees feel they receive same compensation as others for similar contributions, they will believe that they are treated fairly and deserve. Two - factor theory (Hertzberg, 1959) show that job satisfaction as a function of motivators that provide job satisfaction and hygiene. Need - Hierarchy Theory (Maslow, 1943) suggests that a person is motivated by several levels of needs that are arranged in a hierarchy arrangement. The results of this study support previous research by Nawab et al. (2011), Akuoko and Donkor (2012), Sofat (2012), Menshah et al. (2011).

### **Effect of Organizational Commitment on Employee Performance**

Analysis results the direct effect of Organizational Commitment on employee performance show significant and positive path coefficient. This suggests that Organizational Commitment affect on employee performance. Positive path coefficient means that there is unidirectional relationship between organizational commitment and employee performance. Stronger organizational Commitment will improve employee's performance of Local Revenue Management in Kendari. This study finding reinforce the earlier theories as two - factor theory (Hertzberg, 1959) that job satisfaction as a function of motivators that provide job satisfaction and hygiene. The results are consistent with results of previous studies conducted by Samad (2011), Khan et al (2011), Rod et al. (2010), Park et al. (2006).

### **Effect of Compensation on Organizational Commitment through Motivation**

Analysis results the indirect effect of compensation on organizational commitment through motivation show significant and positive path coefficient value of 0. 338. This means compensation increase can significantly strengthen organizational commitment that triggered by motivation of Local Revenue Management in Kendari. Path coefficient the effect of compensation on organizational commitment is 0. 477, compensation on motivation is 0. 832, and motivation on organizational commitment is 0,407. Descriptive analysis of motivation show employees good perception highest average scores for achievement need is 3. 95. It means that employees perceive that they should confidence to organization's goals, belief to organization value, loyal to organization, obey the work rules to prioritize work, prioritize superior and compete to reach that. Employees perceive themselves already work hard through accomplishments in achieving organizational goals.

### **Effect of Compensation on Employee Performance through Motivation**

Analysis results the indirect effect of compensation on employee performance through motivation obtained significant and positive path coefficient value of 0. 380. This means compensation increase can significantly improve employee performance that triggered by employee motivation of Local Revenue Management in Kendari. Path coefficient the effect of employee performance compensation is 0,162, compensation on motivation is 0. 832 and motivation on employee performance is 0. 457. Descriptive analysis of motivation perceived by both employees with the highest average scores on achievement motivation of 3. 95. It means that employees perceive their work to be in presence of confidence in organization's goals, the belief in value of organization, loyalty to organization, obey the rules work ability to prioritize work, prioritize achieving results stand out and compete in achieving results.

### **Effect of Compensation to Performance through Organizational Commitment**

Analysis results the indirect effect of compensation on employee performance through organizational commitment gained significant path coefficient value of 0. 175, this means increasing the compensation can significantly improve employee performance with organizational commitment triggered by strong management staff local revenue (PAD). Path coefficient the effect of compensation on employee performance is 0. 162, compensation on organizational commitment is 0. 477 path coefficients effect of organizational commitment on employee performance is 0,367. Descriptive analysis of organizational commitment was well perceived by employees with highest mean score for normative of 4. 03. It means that employees perceive that strengthening of organizational commitment is manifested by belief to organization goals, belief to organization value, loyal to organization, obey to work rules.

### **Effect of Compensation on Employee Performance through Motivation and organizational commitment**

Analysis results the indirect effect of compensation on employee performance through motivation and organizational commitment show significant and positive path coefficient of 0. 124. This means that compensation increase can significantly improve employees performance that jointly triggered by increasing motivation and strong organizational commitment of Local Revenue Management in Kendari. Path coefficient the effect of compensation on employee performance compensation is 0,162, compensation on motivation and organizational commitment respectively 0. 832 and 0. 477, organizational commitment on employee performance is 0. 367. Descriptive analysis of motivation and organizational commitment is perceived good employee with the highest average scores on achievement motivation of 3. 95 and 4. 03 for normative. It means that employees perceive their work to be in presence of confidence in organization's goals, the belief in value of organization, loyalty to organization, obey the rules work ability to prioritize work, prioritize achieving results stand out and compete in achieving results.

### **Effect of Motivation on Employee Performance through Organizational Commitment**

Analysis results the indirect effect of motivation on employee performance through organizational commitment show significant and positive path coefficient value of 0. 149. This means that increased

motivation can significantly improve employee performance that triggered by organizational commitment of Local Revenue Management in Kendari.

Path coefficient the effect of motivation on employee performance is 0.457, motivation on organizational commitment is 0.407 and organizational commitment on employee performance is 0.367. Descriptive analysis of organizational commitment is well perceived by employees with the highest mean score of 4.03 on normative. It means that employees perceive that strengthening of organizational commitment is manifested by belief to organization goals, belief to organization value, loyal to organization, obey to work rules.

## **V. RESEARCH IMPLICATIONS**

### **Theoretical Implications**

Research findings of integrative models development create theory implication as follow:

- [1] This study was able to build a theoretical model the effect of compensation, on Motivation, Organizational Commitment, and employee performance. This model is also able to explain that compensation directly or indirectly affect on employees performance through motivation and Organizational Commitment.
- [2] This study results demonstrate that compensation plays an important role to improve employee performance through motivation increase and Organizational Commitment reinforcement.
- [3] This study results also proves that although direct effect of compensation on employee performance is not significant, but indirect effect that mediated by motivation and organizational commitment show significant results
- [4] Compensation is a predictor in improving employee performance. It does not mean that leader can directly affect employee's performance but require Compensation that reasonable and fair so trigger employee performance improvement.

### **Practical Implications**

This study results can be used as useful information for managers to provide an understanding for Local Revenue Management about important effect of compensation, which implementing holistically with Motivation and Organizational Commitment in effort to improve employee performance at Local Revenue Management in Kendari. Aspects of adequate compensation, reasonable and fair incentives in particular, should be concerned in order to improve employee performance. In addition, key determinants of any other variable should be concerned by Local Revenue Management in Kendari to make appropriate policies in managing Local Revenue.

### **Research limitations**

- [1] Researchers are civil servants (PNS) in Kendari City. Therefore, it possible the respondents fill out questionnaire by looking at background of researcher to provide a subjective answer.
- [2] Research object is limited to civil servants at Kendari local government, so this study results can not generalize to other areas.
- [3] This research was conducted in a local that has a different culture to other regions. Further research should be done on areas that have different cultures to improve validity and generalizability of this study.
- [4] Variables affecting compensation in this study is limited to motivation, organizational commitment and employee performance variables. Future researches still have opportunities to add relevant variables.

## **CONCLUSION**

Based on research results, discussion, and interpretations that have been described above, it can be concluded as follows:

- [1] Compensation with indicators of salaries, incentives and benefits will play important role to increase employee motivation in Local Revenue Management. It reflected by achievement and affiliation need.
- [2] Compensation capable to strengthen organizational commitment of employees at Local Revenue Management that realized by affective, normative and continuation commitment.
- [3] Compensation less contribute to improve employee performance that realized by quantity, quality, and time. It means that high compensation that inconsistent with conditions employee salaries, incentives and benefits are not always able to boost employee performance.
- [4] Motivation with indicators of achievement need, affiliation need and power need were able to strengthen organizational commitment.

- [5] Motivation play important role to improve employee performance. This means that high motivation will provide a very significant meaning to improve employee performance.
- [6] Organizational commitment capable to improve employee performance that seen from quality, quantity and employee time.
- [7] Direct effect relationship between compensation and employee performance at Local Revenue Management in Kendari is positive but not significant. This contrasts with effect of indirect relationships that mediated by motivation and organizational commitment. Employee performance will increase when mediated by motivation and organizational commitment, either partially or jointly.

### **SUGGESTION**

Based on study results, researchers gave some suggestion that need to be enhanced both by theoretical and practitioners, among others are:

- [1] Government, especially LAWU of Local Revenue Management in Kendari need to formulate a model that involving relevant components to provide an understanding of fair compensation, deserve and fair as a basis for employee performance improvement with regard to motivation and organizational commitment.
- [2] Performance-based compensation system should applied at LAWU of Local Revenue Management in Kendari. This system can: 1) Enforcing organization norms, 2) Motivating employee performance at Local Revenue Management in Kendari, 3) Recognizing the differences in contributions. In order for this system can be implemented effectively, then three things must be considered: 1) Determination and measurement of performance, 2) Determination of benefits, 3) Gaining acceptance from employees.

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