Effect of Compensation and Work Environment on Employee Performance with Employee Job Satisfaction as an Intervening Variable

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Abstract:
An employee who has a high performance and better able to support the achievement of the goals and objectives set by the company. Employees can work well if you have a high performance that can produce good work anyway. With the high-performance that employees, is expected to achieve organizational goals.

This study examines the effect of compensation and work environment on employee performance with job satisfaction to be intervening variable. Data on compensation, work environment, job satisfaction, and employee performance obtained through observation, record keeping and questioner with respondents. The data obtained are then analyzed using Partial Least Squares (PLS).

Statistical tests results showed (1) the compensation proved significant positive effect on job satisfaction the path coefficient of 0.434 and T-Stats for 4.880, (2) work environment proved to be a significant positive effect on job satisfaction the path coefficient of 0.434 and T-Stats for 4.074, (3) job satisfaction proved to be a significant positive effect on employee performance the path coefficient of 0.264 and T-Stats for 2.458, (4) compensation proved positive and significant effect employee performance the path coefficient of 0.242 and T-Stats for 2.912, (5) work environment proved positive and significant effect employee performance the path coefficient of 0.378 and T-Stats for 3.343. Based on test results obtained statistical results of all variables positive and significant impact.

Keywords: compensation, work environment, employee job satisfaction, employee performance

1. Introduction:
On the higher business competition level, competition in deploying not only the products, but also competition in human resources. This is supported by the opinion Nawawi (2000: 167) which states that human resources are an asset in the company to be aware of the existence and development potential. Therefore, in order to boost employee morale, the company must provide appropriate compensation to the type of work and the working class of employees with a purpose to maintaining employee satisfaction towards the company.

Human resource issues are still in the spotlight, and the foundation for the company to continue to
survive in the era of globalization. Human resources have a major role in every activity of the company. Although supported by infrastructure and redundant power sources, but without the support of qualified human resources, the company's activities will not be resolved properly. This indicates that human resources is the key principal that must be considered with all their needs. Therefore, the success or failure of an organization or institution will be determined by the human factor or its employees in achieving objectives. Employees are required to show a good performance.

The success of an organization in retaining employees who have owned can not be achieved with an easy way. It can only be realized thanks to the expertise of the organization in understanding the needs of employees and create a conducive working environment so as to provide job satisfaction for employees and optimally motivated. Based on the above description researchers interested in conducting research in PT. Paramitha Auto Graha (Bengkel PAG) because, allegedly there are problems the compensation given by the company. It is seen from the company stating that the current employee turnover is quite high. Of the report obtained by the researchers say that an average of the last 5 years (2010-2015) employee turnover occurred as many as 10 employees, although still below 5% of the phenomenon remains a concern of corporate management. Based on interviews, data showed that the average of employees who left the company complained that the compensation of the company less willing or less meets their needs. So that employee satisfaction is low or easily influenced by a compensation offer from another company. If it happens continuously without any correction would cause emotional conflict on employees. This will obviously have an impact on progress. Companies, especially in terms of achieving objectives.

In connection with the problem and the research gap of researchers History, the author is interested in conducting a study with the title “Effect Of Compensation And Work Environment On Employee Performance With Employee Satisfaction As An Intervening Variable.”.

As for the issue to be resolved in this study are as follows:

1. Is compensation effect on employee performance on PT. PAG ?
2. Is the work environment effect on employee performance on PT. PAG ?
3. Is compensation effect on employee satisfaction on PT. PAG ?
4. Is work environment effect on employee satisfaction on PT. PAG ?
5. Is the employee satisfaction effect on employee performance in PT. PAG ?

The purpose of this study is as follows:

1. To determine the effect of compensation for employee performance on PT. PAG
2. To determine the effect of the Work Environment for employee performance on PT. PAG
3. To determine the effect of compensation for employee satisfaction on PT. PAG
4. To determine the effect of work environment for the employee satisfaction on PT. PAG
5. To determine the effect of employee satisfaction for employee performance on PT. PAG

The expected benefits of this research are:

1) **Theoretical Benefits:** Used as input for other researchers, academic or deepen the management science and useful as advanced research with the object of the same research.

2) **Practical Benefits:** Provide information as input for PT. PAG in improving the performance of employees so as to provide maximum results.

**2.Theoretical Basis and Hypothesis development:**

i. **Compensation:**

Compensation is everything received by employees as remuneration for their work in Handoko (2001: 156), According to Gomez-Mejia in Ninuk (2002: 109); Schuler and Jackson and Luthans in Ninuk (2002: 109), the total compensation can be classified into three main components, namely: First, the basic compensation is the compensation amount and a fixed payment, such as wages and salaries. Second, variable compensation is a variable amount of compensation or repayment is uncertain.
Michael and Harold in Ninuk (2002: 114) divide the compensation in three forms, namely the material, social and activity. Forms of material compensation is not only in money, such as salaries, bonuses, and commissions, but all forms of physical amplifier (physical reinforcer), such as parking facilities, telephone and comfortable office space, as well as various forms of allowances eg pensions, health insurance. While the activity compensation is compensation that is capable of compensating for aspects of the job he did not like to give an opportunity to perform certain activities. Researchers chose the theory of Michael and Harold were used as the basis for the preparation of a questionnaire based compensation definitions and theories of compensation which has been described previously.

ii. Work Environment:

The work environment is a place where employees perform work activities. The work environment can bring positive and negative effects for employees in order to achieve its results. The working environment in a company is very important to note management. Although the work environment does not carry out the production process in a company, but the work environment has a direct impact on the employees who carry out the production process.

According Sedarmayanti (2009: 21) "in outline, the type of work environment is divided into two namely: a. the physical work environment, and b. non-physical work environment ".

a. Physical Work Environment:

According Sedarmayanti (2009: 22) "physical work environment are all located around the workplace that may affect employees either directly or indirectly". Physical work environment can be divided into two categories, namely:

1) Environment is directly related to the employee (such as: employment center, chairs, tables and so on)

2) Environmental intermediary or the general environment can also be called a work environment that affect the human condition, such as temperature, humidity, air circulation, lighting, noise, mechanical vibration, odor, color, etc.

b. Non-Physical Work Environment:

According Sedarmayanti (2009: 31) states that the non-physical work environment is all of the circumstances relating to the employment relationship, either with superiors or with fellow colleagues or relations with subordinates ".

Researchers chose Sedarmayanti theory that is used as the basis for the work environment questionnaire based on the definitions and theories work environment that has been described previously.

iii. Job satisfaction:

Job satisfaction is influenced factor of each other interrelated, although each factor may not be able to be separated perfectly, but with the statistical analysis of factors that exist can be separated so as to provide an indication of the influence of factors that exist with job satisfaction (kaswan 2012: 286).

Luthans (2006: 431) suggests some measurable indicators of job satisfaction as follows:

1) Salary: Some of wages received and the degree to which this can be seen as deem appropriate in comparison to others in the organization

2) Promotion Opportunities: The opportunity to advance within the organization.

3) Supervision: The ability of providers to provide technical assistance and support behavior.

4) Co-workers: The degree to which colleagues technically proficient and socially supportive.

5) The job itself: In the case where the work provides an interesting task, opportunities for learning, and the opportunity to accept responsibility.

Researchers chose Luthans indicators used as the basis for the preparation of a questionnaire based on the definition of employee job satisfaction and job satisfaction theories that have been described previously.

iv. Performance:

Performance is an important element in the management, who referred to the performance or the performance is the result or the level of a person's success as a whole during a certain period in carrying out duties under a variety of sizes, such as standard work, targets, goals or criteria that have been determined in advance and agreed together.

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Standard performance of employees is employee performance assessment methods as part of HR management development system to encourage the optimization of the utilization of human resources. McNeese-Smith (1996) revealed several factors used to measure the performance of employees, namely:

1. The level of quality of the work,
2. The level of tenacity and endurance work,
3. The level of discipline and attendance,
4. The level of cooperation among co-workers,
5. The level of concern will be safety,
6. The level of responsibility for the results of work
7. The level of initiative / creativity possessed.

Researchers chose McNeese-Smith's theory which was used as basis for the preparation of questionnaires performance of employees based on the definitions and theories of performance of employees who have been described previously.

B. Effect Between Variables:

1. Effect of Compensation on Employee Job Satisfaction: Research conducted by the Wahyu Setiaji and Ken Sudarti (2012) in variable compensation and employee job satisfaction shows that compensation has a positive and significant effect on employee job satisfaction. Based on the above it can be formulated hypotheses as follows:

H1: Compensation has positive influence on Employee Job Satisfaction.

2. Effect of Work Environment on Employee Job Satisfaction: Research conducted by the Wahyu Setiaji and Ken Sudarti (2012) on the work environment and employee job satisfaction shows that the working environment has a positive and significant impact on employee job satisfaction. Based on the above it can be formulated hypotheses as follows:

H2: Work Environment has positive influence on Employee Job Satisfaction.

3. Effect of Compensation on Employee Performance: Research conducted by the Rev. Setiaji and Ken Sudarti (2012) in variable compensation and employee performance shows that compensation has a positive and significant influence on employee performance. Based on the above it can be formulated hypotheses as follows:

H3: Compensation has positive influence on Employee Performance.

4. Effect of Work Environment on Employee Performance: In the opinion of Mangkunagara (2004) work environment has a very close relationship to employee performance. These results are consistent with studies Sugiyarti Gita (2012) states that the working environment positive and significant effect on employee performance. Based on the above it can be formulated hypotheses as follows:

H4: Work Environment has positive influence on Employee Performance.

5. Effect of Employee Job Satisfaction on Employee Performance: Research conducted by the Wahyu Setiaji and Ken Sudarti (2012) in the variable employee job satisfaction and employee performance showed that employee job satisfaction has a positive and significant influence on employee performance. Based on the above it can be formulated hypotheses as follows:

H5: Employee Job Satisfaction has positive influence on Employee Performance.

3. Research Method

A. Population and Sample Research:

1. Subject and Object Research: In this study, the research subjects were all employees in the Office of PT. PAG which is the object of this research is compensation, work environment, employee job satisfaction and employee performance in PT. PAG.

2. Population and Sample Determination: Population is the generalization region consisting of; object / subject that has a certain quantity and characteristics defined by the researchers to learn and then drawn conclusions (Supranto: 2003: 76). Total population in this study amounted to 65 people, who are employees of PT. PAG. Total population of 65 people entirety is taken as respondents. This method is called with a saturated or census sampling method.
B. Research Instrument:

1. Research Variable and Operational Variable Definition:

   **Research Variable**: The research variables are the changes that have variations in the value of (Ferdinand, 2006). This study uses three variables:

   1) **Independent Variable**: The independent variables are variables that affect the dependent variable, both positive effects and the negative effects (Ferdinand, 2006). In this study, the independent variables are:

      a). Compensation = X1
      b). Work Environment = X2

   2) **Dependent Variable**: The dependent variable is the variable that is the center of attention of researchers. The essence of a problem, easily visible to recognize a variety of dependent variables used in a model (Ferdinand, 2006). In this study, the dependent variable is:

      Employee Performance = Y2

   3) **Intervening Variable**: Theoretically intervening variables are variables that affect the dependent and independent relationship into direct and indirect relationships that can be observed and measured. (Ghozali, 2005). In this study, an intervening variable that becomes variable between / intervening are:

      Employee Satisfaction = Y1

2. Method of Collecting Data: Data needed in this research is data on employee perceptions about the influence of compensation, work environment and employee job satisfaction on employee performance. Collecting data in this study done in several ways:

   a. Questionnaire
   b. Observation
   c. Literature Review

C. Data Analysis Method:

1. **Descriptive Statistics Analysis Method:**

   Intended use descriptive analysis method is to provide an overview of the demographics of survey respondents (age, gender, and education end), as well as a description of the study variables.

   Descriptive analysis of respondents' demographic research done by assigning numbers in both quantity (frequency) and percentage. Meanwhile, the description of the variables of research carried out to reveal the respondents' perceptions of statements made in the research instrument of the variables studied. Average (mean) were used in this analysis to determine the distribution of respondents to the statements in the instruments used in this study.

2. **Inferential Statistical Analysis Methods:**

   Inferential analysis technique used to test the empirical model and the hypothesis proposed in this study. The analysis technique used is a structural equation model (Structural Equation Modeling - SEM) variance-based or component-based SEM, known as Partial Least Square (PLS). PLS is a method of analysis that is powerful, because it does not assume the data must use measurements of a certain scale, used in the sample size is small (30-50 unit or <100 units), and can also be used to confirm the theory (Ghozali, 2008; Hair et al., 2010).

   Empirical model in the image above consists of two models:

   1) **Inner model (structural model)** that specifies the relationship between latent variables. In this study, the inner model is a specification of the relationship variable compensation (X1), Work Environment (X2), employee job satisfaction (Y1), and employee performance (Y2);

   1) **Outer Model (measurement model)** specifies the relationship block indicator / item statement with latent variables.

   PLS evaluation model based on measurement predictions that have the nature of non-parametric. Evaluation model consists of two parts, namely the evaluation of the measurement model and structural model evaluation. Further explanation can be described as follows:

   1) **Evaluation Measurement Model or Outer Model:**

      Outer measurement model or models with reflective indicators are evaluated based on the convergent and discriminant validity of the indicators and composite reliability to block indicator. Outer models with formative indicators are evaluated by comparing the magnitude of relative weight and the
significance of the size of the weight (Chin in Ghozali, 2008).
In this study all the variables are latent variables with reflective indicators, so that the evaluation of the measurement model are as follows:

a. **Convergent validity**:  
The first part of the outer test models is convergent validity. Indicators are considered valid if it has an outer loading values above 0.5 and the value of T-Statistic above 1.96 (the degrees of freedom than or n = 500, statistical approaches Z. Meanwhile, 0:05 critical value α = 1.96).

b. **Discriminant validity**:  
The second part is testing the validity discriminant. This test can be done by examining the cross loading with latent variables or by comparing the square root of average variance extracted (√AVE) each latent variable to the correlation between the latent variables in the model. When the value of each indicator in cross loading the corresponding variable value is compared to the largest cross loading on the other latent variables, it is said to be valid. Or, if the square root of average variance extracted (√AVE) latent variables is greater than the correlation across other latent variables then said to have a good discriminant validity. Recommended AVE value must be greater than 0.50.

c. **Composite reliability (pc)**:
The third (last) in the outer model is a composite test reliability, the test value of reliability between the block indicator of constructs that make it up. Group indicator that measures a variable has a composite reliability was good if it has a composite value reliability above 0.70 (pc ≥ 0.70).

2) **Evaluation of the structural model or Inner Model**:
Goodness of Fit models R-square is measured using predictive relevance for the structural model. Q-Square predictive relevance for the structural model, measure how well the observed values generated by the model and parameter estimation. Q2 value≥ 0 indicates the model has predictive relevance, otherwise if the value of Q2 ≤ 0 indicates the model lacks predictive relevance. Magnitude Q2 has a value with a range of 0 <Q2 <1. Q2 is getting closer to the value of 1 means indicates that the model is getting better.

3) **Testing Hypothesis**:  
Hypothesis testing is done by statistical test t (t-test). If in this test was obtained p-value <0.05 (5% alpha), means significant testing, and vice versa if the p-value> 0.05 (5% alpha), means insignificant. When the results of testing the hypothesis on models outer significantly, it indicates that the indicator is viewed can be used as a measuring instrument latent variables. Meanwhile, when the test results on the inner models is significant, it means that there is a significant influence of the latent variables to other latent variables.

4) **Examination Mediation**:  
Examination of this mediation model in principle to determine the intervention of mediating variables, whether proven mediate in full (fully mediated) or partially (partially mediated) or not as a mediating variable. The mediation model inspection methods follow the instructions Hair et al. (2010), namely:

a. Examine the effects of the independent variable on the dependent variable in the model involving mediating variables (effect A),
b. Examine the effects of independent variables on the dependent variable in the model without involving the mediating variables (effect B),
c. Examine the effects of independent variables to mediating variables in the model (effect C),
d. Examine the effects of mediating variables on the dependent variable in the model (D effect).

4. **Result and Discussion**:

C. **Inferential Analysis Result**:
In this study, the data analysis technique used is PLS with SmartPLS Program. Based on the results of data processing using PLS, further evaluating structural equation modeling. In this evaluation, there are two evaluations fundamental, namely: 1) evaluation of the measurement model (outer model) to determine the validity and reliability of indicators that measure latent variables, and 2) evaluation of the structural model (inner model) to determine the accuracy of models and hypothesis testing , The results of PLS analysis can be delivered following exposure.

1. **Measurement Model Evaluation (Outer Model)**
a. Outer Model Examination  
b. Discriminant Validity Examination  
c. Composite Reability
Table 1 Outer Model Examination

| Variable                     | Indicator                          | Outer Loading | T-Statistic |
|------------------------------|------------------------------------|---------------|-------------|
| Compensation (X₁)            | Material Compensation (X1.1)       | 0.810         | 23.538      |
|                              | Social Compensation (X1.2)         | **0.841**     | 15.854      |
|                              | Activity Compensation (X1.3)       | 0.822         | 17.099      |
| Work Environment (X₂)        | Lighting (X2.1)                    | 0.861         | 23.571      |
|                              | Air Temperature (X2.2)             | 0.843         | 15.821      |
|                              | Noise (X2.3)                       | **0.876**     | 24.732      |
|                              | Coloring (X2.4)                    | 0.807         | 14.170      |
|                              | Space Needed (X2.5)                | 0.835         | 14.378      |
|                              | Job Security (X2.6)                | 0.778         | 13.702      |
|                              | Employee Relationship (X2.7)       | 0.653         | 13.389      |
| Employee Satisfaction (Y₁)   | Promotion Opportunities (Y1.1)     | 0.783         | 12.491      |
|                              | Supervision (Y1.2)                 | **0.894**     | 28.192      |
|                              | Co-Worker (Y1.3)                   | 0.879         | 23.383      |
|                              | Job Itself (Y1.4)                  | 0.774         | 12.367      |
| Employee Performance (Y₂)    | Quality of Work (Y2.1)             | 0.807         | 13.331      |
|                              | Tenacity and Durability (Y2.2)     | 0.784         | 11.897      |
|                              | Discipline and attendance (Y2.3)   | **0.818**     | 17.982      |
|                              | Cooperation (Y2.4)                 | 0.758         | 12.087      |
|                              | Safety Work Concern (Y2.5)         | 0.778         | 11.162      |
|                              | Responsibility of Work (Y2.6)      | 0.745         | 8.389       |
|                              | Initiative Creativity (Y2.7)       | 0.735         | 8.725       |

Table 2 Discriminant Validity Examination

| Variable                             | AVE   | √ AVE | Korelation | X₁ | X₂ | Y₁   | Y₂  |
|--------------------------------------|-------|-------|------------|----|----|------|-----|
| Compensation (X₁)                    | 0.660 | 0.812 | 1.000      |    |    |      |     |
| Physical Work Environment (X₂)       | 0.649 | 0.806 | 0.635 1.000 |    |    |      |     |
| Employee Satisfaction (Y₁)           | 0.683 | 0.826 | 0.690 0.684 1.000 |      |     |
| Employee Performance (Y₂)            | 0.592 | 0.769 | 0.648 0.686 0.669 1.000 |      |     |

Table 3 Composite Reliability

| Variable               | Composite Reliability |
|------------------------|-----------------------|
| Compensation(X₁)       | 0.854                 |
| Physical Work Environment (X₂) | 0.928               |
| Employee Satisfaction (Y₁) | 0.895               |
| Employee Performance (Y₂) | 0.910               |
2. Structural Model Measurement (Inner Model)

**Table 4 Goddess of Fit Examination Result**

| Structural Model | Dependent Variable             | R-square |
|------------------|--------------------------------|----------|
| 1                | Employee Job Satisfaction (Y<sub>1</sub>) | 0.578    |
| 2                | Employee Performance (Y<sub>2</sub>)   | 0.575    |

Calculation:

\[ Q^2 = 1 - [(1 - R^2_{Y_1}) (1 - R^2_{Y_2})] \]

\[ Q^2 = 1 - [(1 - 0.578) (1 - 0.575)] \]

\[ = 0.8207 \]

**D. Hypohesis Examination Result:**

Hypothesis testing is done by t-test with sorting for testing the effect of direct and indirect or mediating variable testing. The following sections are described in a row directly influence the test results and testing the mediating variable.

**Table 5 Direct Effect Examination**

| No | Variable Relationship                                      | (Bootstrapping) | T-Statistic | Keterangan |
|----|------------------------------------------------------------|-----------------|-------------|------------|
| 1  | Compensation (X<sub>1</sub>) → Employee Job Satisfaction (Y<sub>1</sub>) | 0.434           | 4.880       | Significant |
| 2  | Work Environment (X<sub>2</sub>) → Employee Satisfaction (Y<sub>1</sub>) | 0.378           | 3.343       | Significant |
| 3  | Compensation (X<sub>1</sub>) → Employee Performance (Y<sub>2</sub>)  | 0.242           | 2.912       | Significant |
| 4  | Work Environment (X<sub>2</sub>) → Employee Performance (Y<sub>2</sub>)  | 0.434           | 4.074       | Significant |
| 5  | Employee Satisfaction (Y<sub>1</sub>) → Employee Performance (Y<sub>2</sub>)  | 0.264           | 2.458       | Significant |

Based on the analysis performed can be presented research model image according to the analysis of PLS as follows:

**Table 6 Result of Testing the Mediation Variables**

| No | Mediation Employee Satisfaction Variable (Y<sub>1</sub>) pada: | Effect | Information          |
|----|--------------------------------------------------------------|--------|----------------------|
|    |                                                             | (A)    | (B)                  | (C)    | (D)    |                      |
| 1  | Compensation (X<sub>1</sub>) → Employee Performance (Y<sub>2</sub>) | 0.242 (Sig.) | 0.346 (Sig.) | 0.434 (Sig.) | 0.264 (Sig.) | Partial Mediation   |
|    |                                                              |        |                      |        |        |                      |
| 2  | Work Environment (X<sub>2</sub>) → Employee Performance (Y<sub>2</sub>) | 0.378 (Sig.) | 0.513 (Sig.) | 0.434 (Sig.) | 0.264 (Sig.) | Partial Mediation   |

nb: Significant (Sig.) = T-statistic > 1.96 pada α : 5%
Table 7 Calculation of Direct, Undirect Effect Examination and Total

| No | Variable Relationship | Direct Effect | Undirect Effect | Total Effect |
|----|-----------------------|---------------|-----------------|-------------|
| 1  | Compensation (X₁) → Employee Job Satisfaction (Y₁) → Employee Performance (Y₂) | 0.242 | 0.115 (0.434 * 0.264) | 0.357 |
| 2  | Work Environment (X₂) → Employee Job Satisfaction (Y₁) → Employee Performance (Y₂) | 0.378 | 0.115 (0.434 * 0.264) | 0.493 |

5. Conclusions:

1. Compensation has positive and significant effect on employee job satisfaction on PT. PAG. This finding suggests that the compensation that was developed at PT. PAG by prioritizing activities, and supported compensation of material and social compensation can improve employee job satisfaction is reflected in the aspect of promotion opportunities, supervision, co-workers, and the work itself.

2. Work environment has positive and significant effect on employee job satisfaction on PT. PAG. These findings provide clues that work environment on PT. PAG that prioritizes lighting, and coupled air temperature, noise, use of color, spase required, job security and working relationships can improve employee job satisfaction of aspects of promotion opportunities, supervision ,co-workers PT. PAG with the advanced compensation activity, and supported compensation for material and social compensation, and the work itself.

3. Compensation has positive and significant effect on the employee performance in the PT. PAG. These findings indicate that compensation is developed on PT. PAG can improve employee performance based on the quality of the work, tenacity and endurance work, discipline and attendance, cooperation among coworkers, concern will be safety, responsibility for the work and initiative / creativity possessed.

4. Work environment has positive and significant effect on the performance of loyal performance in the PT. PAG. These findings provide meaning, the better the physical working environment that is based illumination, and followed by air temperature, noise, use of color, space required, job security and working relationship capable of directing performance improvement based on the quality of the work, tenacity and endurance work, discipline and attendance, cooperation among coworkers, will concern safety, responsibility for the work and initiative / creativity of.

5. Employee Job satisfaction has positive and significant effect on the employee performance in the PT. PAG. These findings provide a sense, the more satisfied employees work with emphasis on supervision and supported promotional opportunities, co-workers, and the work itself can improve employee performance based on the quality of the work, tenacity and endurance work, discipline and attendance, cooperation among coworkers, concern will safety, responsibility for the work and initiative / creativity possessed.

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