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## THE MEDIATING ROLE OF JOB SATISFACTION ON COMPENSATION, WORK ENVIRONMENT, AND EMPLOYEE PERFORMANCE: EVIDENCE FROM INDONESIA

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**Abstract.** Job satisfaction has a pivotal role in improving employee performance. It provides enthusiasm and high motivation to employees to increase productivity. On the other hand, to improve employee performance, the organization provides compensation based on established standards and in an environment that is, sometimes, less conducive. This study purposes to examine the mediating role of job satisfaction on compensation, work environment, and employee performance at State Polytechnic colleges in Indonesia. This study used Partial Least Square (PLS) as data analysis. This study found that compensation has no impact on job satisfaction and employee performance. In addition, job satisfaction cannot mediate the compensation and employee performance. However, the work environment positively and significantly affects job satisfaction and employee performance. Job satisfaction has impact on work environment and employee performance. It also influences employee performance positively and significantly. Thus, job satisfaction directly or indirectly can be a mediator for the relationship between work environment and employee performance.

**Keywords:** Job Satisfaction, compensation, work environment, employee performance, and State Polytechnic colleges.

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**JEL Classifications:** M10, O15

### 1. Introduction

Globalization has brought many challenges to organizations in managing employee performance to achieve organizational goals (Gorondutse & Hilman, 2019; Polychroniou & Trivellas, 2018). The success of an organization hang on the utilization of human resources such as people who provide energy, creativity, and enthusiasm for the organization and plays a pivotal role in the implementation of organizational operations (Ali Alsheikh, Ahmad Alremawi, & Bin A Tambi, 2018). Human resources must always be considered, maintained, and developed by organizations (Dessler, 2000; Hasibuan, 2002; Purwadita, Sudiro, Mugiono, & Idris, 2018; A.

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Sani, Wekke, Ekowati, Abbas, & Idris, 2018; Achmad Sani, Ekowati, Wekke, & Idris, 2018). The performance of private employees is considered better than civil servants. Private employee performance standards tend to be more transparent and more measurable. By providing reward and punishment, recruitment, promotion, and mutation, private organizations are more open than civil servants. As a result, their performance and organizational performance at the same time are further improved. Furthermore, globalization has also pushed bureaucratic reform into a necessity and the high performance of Civil Servants has become a demand for public organizations, as a consequence of increasing their salaries.

In 2016, the Ministry of State Apparatus and Bureaucratic Reform of Indonesia released a survey on the Performance of Civil Servants. The survey found that only 40% of civil servants in Indonesia have certain skills and expertise at work. In addition, as many as 60% of the total 4,498,643 civil servants in Indonesia have only administrative expertise. Based on these findings, it was revealed that many civil servants were monotonous in their work and lack of innovation in carrying out their work. Therefore, improvements in employee recruitment in the future must be based on the skills and capabilities of candidates to occupy the required formation (Abnur, 2016). This of course also occurs in state polytechnics college as one of the government institutions in the field of education. Therefore, improving employee performance in this context is vital to be a concern.

Higher education is one of the service organizations that is dependent on Human Resources to achieve its goals. Its success depends greatly on the activities of the utilization of Human Resources. Employees who provide energy, creativity, and enthusiasm for the organization for the continuity of the operational functions of the organization need to manage Human Resources to improve employee performance as expected. However, organizational management often has difficulty in identifying the factors caused the decline in employee performance (Idris, 2019).

No organization can achieve its goals successfully through the hard work of one or a few individuals. In short, all employees must perform well to achieve the goals of the state polytechnic college. In fact, employee performance has many dimensions that must be considered by the institution because it affects the strategy and goals of the organization (Idris & Adi, 2019). Therefore, the overall performance of employees makes a significant contribution to the core of the organization. Productivity and efficiency are benchmarks of employee performance. This raises an understanding of the importance of the role of employees as organizational assets, the organization cannot achieve its goals without the participation of employees (Idris et al., 2020).

The concept of employee performance refers to the level and quality of effort, cooperation, commitment, tardiness and absence, as well as employee adherence to organizational standards. Similarly, employees who work to achieve certain jobs that lead to positive results and behavior. Employee performance is the achievement and contribution of individual workers that can be measured. It is a concept with complex aspects and is susceptible to the influence of several variables, which include age, gender, employee recognition and job satisfaction (Hambali & Idris, 2020; Supriyanto, Ekowati, Idris, & Iswanto, 2020).

For the sake of survival, employee in the state polytechnics college work to get money to meet all their needs. Thus, employees work hard and show loyalty to the organization. Compensation provided by the organization is an appreciation of employee work performance. It is a way for management in improving work performance, motivating and improving the performance of employees (Mathis & Jackson, 2000). Compensation has a significant impact on employee performance (Anderson, Pyo, & Zhu, 2018; Buachoom, 2017; Salisu, Chinyio, & Suresh, 2015). Mabaso and Dlamini (2017) found that compensation is a key factor that can affect employee satisfaction. However, in this study, benefits, as part of the compensation dimension, did not affect job

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satisfaction. Industrial employees in Ethiopia are satisfied with the compensation payments they receive, which increases the performance of employees (Addis, Dvivedi, & Beshah, 2018). In addition, not only compensation satisfaction can have a broad impact on work behavior and quality of life of employees, but also financial benefits can be a critical factor for performance (Che Ahmat, Arendt, & Russell, 2019; Igalens & Roussel, 1999; Patiar & Wang, 2020; Syed, 2020).

CEOs of technology and non-technology companies in the USA, for example, suppressed compensation payments when the industrial cycle was declining, which was intended to motivate employees to improve their performance (Anderson et al., 2018). The dependency of the unit wage compensation scheme in Australia results in higher employee performance compared to the fixed payment bonus compensation scheme (Chong & Leung, 2018). In another study, some regulations have been issued by the Chinese government to control executive compensation of state-owned businesses, by setting the optimum level of managerial compensation with orientation to the average wage of employees. This is significant by increasing employee satisfaction which has an impact on employee performance in China (Jiang & Zhang, 2018). In addition, The importance of the Islamic work ethic applied in organizations provides intrinsic motivation and employee work attitudes such as organizational commitment and job satisfaction, thereby it can increase employee performance in the organization (Kataria, Garg, & Rastogi, 2019).

Compensation practices, workforce planning, and HR practices that focus on work or life balance can be used to estimate job satisfaction and can increase reductions in turnover intentions (Martinson & De Leon, 2018). In contrast, a study in Kenya showed teachers felt very unhappy with all aspects of the compensation received financially or non-financially. However, the basic salary, benefits and work environment greatly affect teacher job satisfaction (Muguongo, Muguna, & Muriiti, 2015). Also, sale satisfaction has no a positive impact on employee performance in insurance companies (El Samen & Akroush, 2018). Thus, this study is intended to fill the gap of findings in the previous research.

Organizations face several tasks due to the dynamic landscape of the environment. To deal with the environment and changes that are constantly changing and developing to be success and remain competitive, the organization needs to satisfy its employees by meeting the needs of employees and providing good working conditions (Amabile, Conti, Coon, Lazenby, & Herron, 1996; Amiroso & Mulyanto, 2015). Empirical studies have illustrated that the environment plays a pivotal role in improving performance. Educational institutions, banking and the telecommunications industry in Pakistan prove that work environment and job satisfaction correlated positively. Managers recognize the standing of a good work environment to optimize the high of job satisfaction (Raziq & Maulabakhsh, 2015). Jain and Kaur (2014), and Muguongo, et al. (2015) found a significant relationship between work environment and satisfaction. However, work environment that is not conducive in banking industry in India proves a negative impact on employee satisfaction (Dhamija, Gupta, & Bag, 2019). Also, Amiroso and Mulyanto (2015) found that the work environment did not affect the employee performance. The difference in these findings provides further opportunities in further research to confirm the gap. Therefore, this study is intended to examine the link of compensation, work environment, job satisfaction, and employee performance.

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## 2. Literature review

### 2.1 Compensation, job satisfaction, and employee performance

Compensation is everything that employees receive as compensation for their work (Handoko, 2006). Compensation is also considered as any form of compensation given by the company to its employees for the sacrifice of the employee concerned (Soehardi, 2003). The sacrifice of these employees can be in the form of work, performance services, costs, or the effort spent to achieve certain goals set by the company. Meanwhile, Simamora (2006) argues that compensation is also all forms of financial returns, tangible services, and benefits received by employees as a portion of an employment relationship.

In awarding compensation, what should be noted is that compensation must be appropriate, fair, acceptable, satisfying, motivating for work, rewarding, and based on needs. Giving compensation will provide benefits to both parties, both to the company and to the employees (Sopiah, 2013). This is due to job satisfaction can affect happiness, morale, and employee motivation in increasing productivity (Mabaso & Dlamini, 2017; Zhang, Cai, Jia, & Li, 2018)

Empirical evidence that proves the relationship of compensation, satisfaction, and performance is proven by several previous studies. Compensation positively affect employee performance (Anderson et al., 2018; Buachoom, 2017; Salisu et al., 2015). Industrial employees in Ethiopia are satisfied with the compensation payments they receive so as to improve the employees performance (Addis et al., 2018). An increase in compensation give a positive impact on employee satisfaction which has an effect on increasing employee performance (Chong & Leung, 2018; Jiang & Zhang, 2018; Martinson & De Leon, 2018). The essential of the Islamic work ethic applied in organizations provides intrinsic motivation and employee work attitudes such as organizational commitment and satisfaction, thereby it can increase employee performance in the organization (Kataria et al., 2019). Based on the description, the hypothesis is proposed as follows.

**Hypothesis 1: There is a significant effect between Compensation and Employee Performance.**

**Hypothesis 2: There is a significant effect between Compensation and Job Satisfaction.**

**Hypothesis 3: There is a significant effect between Compensation and Employee Performance through Job Satisfaction.**

### 2.2 Work environment, job satisfaction, and employee performance

Work environment is somewhat that is in the workers setting and that impact their finishing tasks assigned (Nitisemito, 2001). The work environment is the entire tool kit, the close environment in which methods, works, and arrangements of a person both as individuals or as a group (Sedarmayanti, 2011). The work environment is also defined by noise, tools, materials, space, physical layout, and co-worker relationships as well as the quality of all of those that have essential impacts on the high quality of work (Raziq & Maulabakhsh, 2015).

Safe, comfortable and attractive working conditions are created if the environment around the workplace is healthy (Raziq & Maulabakhsh, 2015). Healthy work environment includes regulation of noise, workplace lighting, humidity and air temperature, service needs of employees, use of color, maintenance of environmental cleanliness and the provision of various facilities needed by employees, such as toilets, changing rooms, and places of worship (Amiroso & Mulyanto, 2015).

Some empirical evidence conducted by previous researchers proves that the effect of work environment, job satisfaction, and employee performance was significant. Educational institutions, banking and the telecommunications industry in Pakistan prove a significant effect of the work environment to employee job

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satisfaction. Managers recognize the standing of a respectable work environment to exploit the level of job satisfaction (Raziq & Maulabakhsh, 2015). Jain and Kaur (2014), and Muguongo, et al. (2015) found a significant correlation between work environment and job satisfaction. The banking industry in India proves that the work environment make employee unhappy resulting in decreased employee performance (Dhamija et al., 2019).

**Hypothesis 4: There is a significant effect between work environment and employee performance.**

**Hypothesis 5: There is a significant effect between work environment and job satisfaction.**

**Hypothesis 6: There is a significant effect between work environment and employee performance through job satisfaction.**

### 2.3 Job satisfaction and employee performance

Job satisfaction is a significant aspect in the practice of organizational behavior and human resource management. Job satisfaction could affect happiness, morale, and employee motivation in increasing productivity (Mabaso & Dlamini, 2017). Job satisfaction is a close personal entity that can be felt by those concerned. Owusu (2014) states that job satisfaction is a feeling of preference or satisfaction with one's work or experience at work. This condition can lead employees to a condition where they can improve their performance level. Meanwhile, in different conditions, emotionally dissatisfied with work, can cause low performance of employees. On the other hand, high performance is very important for organizations to achieve what has been the goal.

Bernandin and Russel (1993) defines performance as a record of the results from the function of a particular job during a certain period. Meanwhile, according to Mangkunegara (2009) performance is the product of quality and quantity of work accomplished by an employee in finishing their tasks and related to their responsibilities to fulfil their duties on time. Performance is defined as the product reached by a person in finishing the tasks assigned based on their experience, skill, and sincerity. Performance is also a combination of three essential factors including the interest and ability of a worker, the ability and acceptance of the delegation's task explanation, and the role and level of worker motivation. The higher the three factors, the greater the person's performance (Hasibuan, 2002).

Previous research has shown a positive effect in job satisfaction and employee performance (Amiroso & Mulyanto, 2015; Chong & Leung, 2018; Dhamija et al., 2019; Jiang & Zhang, 2018; Kataria et al., 2019; Martinson & De Leon, 2018). To improve overall performance, managers target and focus on the welfare of their employees so as to encourage employees to work better. This is an effort to satisfy the workers (Shahzad, Farrukh, Kanwal, & Sakib, 2018). Thus, the hypothesis is proposed as follows.

**Hypothesis 7: There is a significant effect between job satisfaction and employee performance.**

Based on theoretical and empirical understanding, the conceptual framework is as follows (Figure 1).

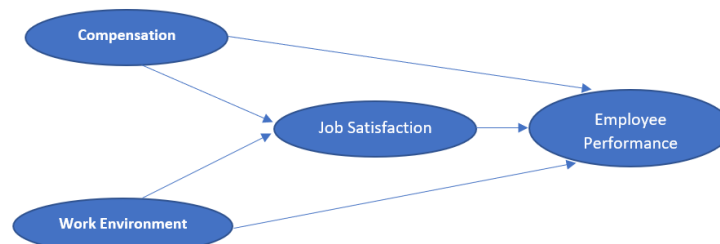


Fig. 1. Conceptual Model

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### 3. Research method

This research used an explanatory approach. The population of this study is fulltime and permanent employee at State Polytechnic colleges in East Java, Indonesia (Three Colleges). The questionnaire was distributed to 155 civil servants who had worked for more than one year. The data have been collected between April to July 2019 . The sample was determined by slovin formula as follow:

$$n = \frac{N}{1 + Ne^2}$$

$$n = \frac{253}{1 + 253 \times 0.05e^2}$$

$$n = \frac{253}{1 + 253 \times 0.0025}$$

$$n = \frac{253}{1 + 0.6325}$$

$$n = \frac{253}{1.6325}$$

$$n = 154.977$$

The demographic profile for respondents indicated by table 1 as follow.

**Table 1.** Demographic Profile for respondents (*n* =155)

Variables	Categories	%
Gender	Male	37
	Female	63
Age	<25	3
	26-30	52
	>30	45
Highest Education	Senior high school	10
	Bachelor	88
	Master	2
Working status	<3	18
	3-5	78
	>5	6

Source: Data processed (2019)

#### 3.1 Measures

The definition of a variable and the process of determining the indicators or dimensions of each variable is an attempt to form indicators of a variable that has been described previously. Establishment of variable indicators to assist measurement techniques and facilitate observation in data collection. The following are the variables and their indicators (Table 2).

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**Table 2.** Operational Variables

Variables	Indicators	Scales	Sources
Compensation (X1)	Salary	5 Likert Scale	Odunlade (2012)
	Incentive		
	Allowance		
Work environment (X2)	Facilities	5 Likert Scale	Jain and Kaur (2014)
	Physical		
Job Satisfaction (Z)	Non-Physical	5 Likert Scale	Mabaso and Dlamini (2017)
	Work itself		
	Cooperation		
Employee Performance (Y)	Promotion	5 Likert Scale	Jamil and Raja (2011)
	Supervision		
	Work quantity		
	Work quality		

Source: Data processed (2019)

The questionnaire was developed and adapted from previous studies, compensation from Odunlade (2012), work environment from Jain and Kaur (2014), job satisfaction from Mmabaso and Dlamini (2017), and employee performance from Jamil and Raja (2011). This study used likert-type scale to measure each item for all variables ranging from 1 = strongly disagree to 5 = strongly agree. One sample item included “I am satisfied with the salary”.

Partial least square (PLS) was used to analyzed the data--structural modeling with indicators that are reflective and formative (Ghozali, 2006). Measurement of each variable used indicators adopted from several theories that have been used by previous researchers as described in table 2.

**4. Results and discussions**

**4.1 Measurement model**

The first stage in PLS analysis is assessing the construct validity and reliability. It was measured by loading Factor value and Average variance extracted (AVE). An instrument meet the convergent validity by loading factor exceeding 0.6 (Ghozali, 2006) and AVE above 0.5 (Chin, 1995). The results are presented as follow (Table 3).

**Table 3.** The Convergent validity measured by loading factors

Variables	Indicators	Loading Factor	Cut off	Inf.
Compensation (X1)	X.1.1	0.742	0.6	Valid
	X.1.2	0.791	0.6	Valid
	X.1.3	0.818	0.6	Valid
	X.1.4	0.730	0.6	Valid
Work Environment (X2)	X.2.1	0.898	0.6	Valid
	X.2.2	0.907	0.6	Valid
Job Satisfaction (Z)	Z.1	0.809	0.6	Valid
	Z.2	0.806	0.6	Valid

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	Z.3	0.807	0.6	Valid
	Z.4	0.810	0.6	Valid
Employee Performance (Y)	Y.1	0.692	0.6	Valid
	Y.2	0.910	0.6	Valid

Source: Data processed (2019)

Table 3 shows the loading factors exceed 0.6 ranging from 0.692 to 0.910, which indicate adequate validity from all variables. The loading factors values exceed the minimum criteria, which mean that all variables are valid. It can be assumed that the model could describe the relationship of all indicators with their latent variables. Compensation, work environment, job satisfaction, and employee performance are valid as it has fulfilled the criteria for measuring convergent validity > 0.6. Therefore, these indicators can measure the variables (Table 4).

**Table 4.** Average Variance Extracted (AVE)

Variables	AVE	Cut off	Keterangan
Compensation (X1)	0.514	0.5	Valid
Work environment (X2)	0.697	0.5	Valid
Job satisfaction (Z)	0.581	0.5	Valid
Employee performance (Y)	0.589	0.5	Valid

Source: Data processed (2019)

Table 4 indicates that all indicators are valid because the measurement results of the model meet the requirements, the value of AVE > 0.5, ranging from 0.514 to 0.697.

To test the validity measurement, factor analysis is used by using the result of cross loadings. The loadings factor are considered adaptable (0.55–0.62), very good (0.63–0.70), and excellent (above 0.71) (Ghozali, 2006). Discriminant validity was measured by examining the loadings to indicate that the value in the same construct correlates highly amongst themselves. Table 5 indicates that the bold values are higher than across the column. Thus, all items indicate that the loadings value higher than the acceptable level. The result is as follow (Table 5).

**Table 5.** The values of cross loading

Indikator	X1	X2	Y	Z
X1.1.1	<b>0.742</b>	0.021	0.078	0.113
X1.1.2	<b>0.527</b>	-0.005	0.008	-0.052
X1.2.1	<b>0.726</b>	0.084	0.147	0.152
X1.2.2	<b>0.791</b>	-0.022	0.122	0.074
X1.3.1	<b>0.753</b>	-0.096	0.109	0.041
X1.3.2	<b>0.818</b>	-0.068	0.091	0.118
X1.4.1	<b>0.73</b>	-0.163	0.058	0.062
X1.4.2	<b>0.605</b>	-0.153	0.054	0.05
X2.1.1	-0.061	<b>0.716</b>	0.134	0.246
X2.1.2	0.005	<b>0.898</b>	0.304	0.305
X2.2.1	-0.057	<b>0.907</b>	0.328	0.306
X2.2.2	-0.042	<b>0.804</b>	0.211	0.252
Y.1.1	0.027	0.047	<b>0.665</b>	0.393



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Y.1.2	0.19	0.195	<b>0.692</b>	0.475
Y.2.1	0.15	0.184	<b>0.91</b>	0.737
Y.2.2	0.059	0.434	<b>0.777</b>	0.692
Z.1.1	0.059	0.434	0.777	<b>0.692</b>
Z.1.2	0.154	0.134	0.485	<b>0.809</b>
Z.2.1.	0.118	0.12	0.372	<b>0.806</b>
Z.2.2	0.122	0.104	0.347	<b>0.732</b>
Z.3.1	0.173	0.176	0.501	<b>0.807</b>
Z.3.2	0.109	0.127	0.375	<b>0.81</b>
Z.4.1	0.072	0.362	0.747	<b>0.751</b>
Z.4.2	0.079	0.258	0.661	<b>0.676</b>

Source: Data processed (2019)

Table 5 shows that overall, the loading factor value in the instrument is higher than the cross correlation on other variables. Thus, the instrument can be assumed to be able to measure latent variables.

The second stage is assessing the construct reliability by measuring the value of Alpha Cronbach (> 0.6), and Composite Reliability (0.7). the results are presented as follows (Table 6).

**Table 6.** The values of construct reliability

Variables	Alpha Cronbach	Cut off	Composite Reliability	Cut off	Inf.
Compensation (X1)	0.874	0.7	0.893	0.7	Reliabel
Work Environment (X2)	0.856	0.7	0.901	0.7	Reliabel
Job Satisfaction (Z)	0.904	0.7	0.917	0.7	Reliabel
Employee performance (Y)	0.766	0.7	0.849	0.7	Reliabel

Source: Data processed (2019)

Table 6 shows that the Cronbach alpha value for all variables is greater than 0.7, compensation (0.874), work environment (0.856), job satisfaction (0.904), and employee performance (0.766). Meanwhile, for the composite reliability value of each variable are compensation (0.893), work environment (0.901), job satisfaction (0.917), and employee performance (0.849). The reliability composite value also exceeds 0.7. Thus, the instrument can be declared reliable.

#### 4.2 Goodness of fit model

The next step is the measurement of the Goodness of fit model (GFM). GFM is used to validate that the endogenous variables can clarify the diversity of exogenous variables. To find out the contribution of exogenous variables to endogenous variables, here is based on the Q2 value (Q-square predictive relevance) as shown in the following table 7.

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**Table 7.** The Goodness of Fit Model

Variables	R <sup>2</sup>
Employee Performance	0.612
Job Satisfaction	0.135
$Q^2 = 1 - (1 - R1^2) \times (1 - R2^2)$	
$Q^2 = 1 - (1 - 0.612) \times (1 - 0.135)$	
$Q^2 = 1 - 0.335$	
$Q^2 = 0.665$	

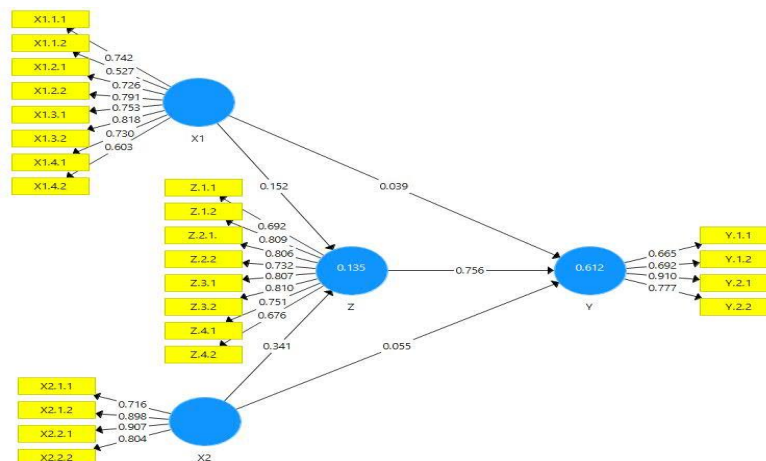
Source: Data processed (2019)

The R2 value of the employee performance variable is 0.612 or 61.2%. This means that employee performance variables can be explained by compensation, work environment, and job satisfaction variables by 61.2%. Then, the contribution of other variables that were not a concern in this study was 38.8%. Meanwhile, the R2 value for the job satisfaction variable is 0.135 or 13.5% in percentage. This shows that the variable of job satisfaction can be described by the variable compensation, and the work environment by 13.5%. Meanwhile, the remaining 96.5% is contributed by other variables that not be covered by this study.

The diversity of employee performance variables that can be explained in this study model is seen from the Q2 (Q-Square Predictive Relevance) value of 0.665 or 66.5%. While the remaining 33.9% is contributed by other variables that are not a concern in this study. Thus, the exogenous variable contributes to endogenous variable is 66.5%.

### 4.3 Structural model

The next model being tested is the Structural Model. The value of each path coefficient is measured by bootstrapping with 5000 samples using the replacement method. Hypothesis testing is projected to test and find out whether there is an influence between variables developed in the model. This test refers to the T-statistic value, where if the T-statistic value exceeds the T-Table (1.96), the hypothesis is accepted. The results are presented in Figure 2 and table 8 as follows.



**Fig. 2.** Path Diagram

Source: Data processed (2019)

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**Tables 8.** The result of hypotheses testing

Hypoteses	Effects	Coefficient	T-Statistic	Inf.
1	X1 → Y	0.039	1,571	Insignificance
2	X1 → Z	0.152	1.382	Insignificance
3	X2 → Y	0.055	5.501	Significance
4	X2 → Z	0.341	6.007	Significance
5	Z → Y	0.756	27.901	Significance
6	X1 → Z → Y	0.115	1.391	Insignificance
7	X2 → Z → Y	0.258	6.381	Significance

Source: Data processed (2019)

Figure 2 and Table 8, in general, show that compensation (X1) either directly or indirectly has no impact on job satisfaction (Z) and employee performance (Y). In contrast, work environment (X2) has a direct and indirect impact on job satisfaction (Z) and employee performance (Y). Furthermore, it indicates that Job satisfaction (Z) cannot mediate the compensation (X1) and employee performance (Y). However, it can mediate the correlation between work environment (X2) and employee performance (Y).

#### 4.4 Compensation, job satisfaction, and employee performance

Figure 2 and Table 8 show that the coefficient of compensation for employee performance has a positive value of 0.039 and has a T-statistic of 1.571. This indicates compensation has a positive relationship, but does not significantly influence employee performance. This is because the T-statistic value is smaller than the T-table value, which is  $1.571 < 1.96$ . Thus, H1 is rejected.

This finding indicates that employees at the polytechnic college feel quite satisfied with the compensation given. This is indicated by the high respondents' assumptions about the incentives that have been made by polytechnic colleges. In addition, this finding also claims that the high compensation of employees in polytechnic colleges does not make employees have high performance. Thus, they assume that there are other factors that can be a major cause in improving employee performance, such as discipline, work culture, leadership and others.

Compensation positively related to job satisfaction (Coefficient = 0.152), but it is not significant with the variable Job Satisfaction (T-statistic = 1.382). The T-statistic value is smaller than the calculated T-ratio of 1.382  $< 1.96$ . Thus, H2 is rejected. Compensation provided by polytechnic colleges does not provide job satisfaction for employees. One reason is because employees consider compensation as an organizational obligation that must be given to employees. Hence, job satisfaction cannot be determined by the compensation given by the organization.

The job satisfaction (as a mediating variable between compensation and employee performance) has no significant effect. This is indicated by the results of the path coefficient of 0.115 and the value of T-Statistics of 1.391, the value of T-Statistics is smaller than the value of T-table. Therefore, the third hypothesis is rejected.

Compensation also includes all forms of tangible services, benefits received by employees as part of a work relationship, and financial returns (Simamora, 2006). Employee sacrifice can be in the form of work, performance services, costs, or the effort spent to achieve certain goals set by the company. Job satisfaction is one important aspect in the practice of organizational behavior and human resource management. This is because job satisfaction provides happiness, morale, and employee motivation in increasing productivity (Mabaso & Dlamini, 2017; Zhang et al., 2018).

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The findings of this study are supported by research in Kenya that teachers feel very unhappy with all aspects of financial and non-financial compensation received. However, the basic salary, benefits and work environment greatly affect teacher job satisfaction (Muguongo et al., 2015). Satisfaction of sales results also does not impact on employee performance in insurance companies (El Samen & Akroush, 2018). In addition, the financial benefits obtained as a company compensation lead to high employee satisfaction and high performance at other service companies such as hotels (Che Ahmat et al., 2019; Patiar & Wang, 2020).

This study proves findings that are a quite different from previous studies which prove the links of compensation, satisfaction, and performance. Compensation affects employee performance (Anderson et al., 2018; Buachoom, 2017; Salisu et al., 2015). In addition, Industrial employees in Ethiopia are satisfied with the compensation payments they receive, which increases the performance of employees (Addis et al., 2018). Increased compensation provides a significant effect on employee satisfaction which has an impact on increasing employee performance (Chong & Leung, 2018; Jiang & Zhang, 2018; Martinson & De Leon, 2018). The importance of the Islamic work ethic that is applied in organizations gives intrinsic motivation and employee work attitudes such as organizational commitment and satisfaction, thereby it could increase employee performance in the organization (Kataria et al., 2019).

#### **4.5 Work environment, job satisfaction, and employee performance**

Figure 2 and table 8 also describe the coefficient value of the work environment variable on employee performance of 0.055 with a positive value and has a T-statistic of 5.501. This shows that the link of work environment variables and employee performance is a positive and significant. Similarly, the path coefficient value of the work environment and job satisfaction of 0.341 and T-Statistics 6.007. Thus, the work environment and job satisfaction is positively and significantly correlated. Both have T-Statistics values greater than T-statistics with  $5.501 > 1.96$ , and  $6.007 > 1.96$ . With regard to the results of testing this hypothesis, it shows that the better working environment will improve employee performance and increase employee job satisfaction. Therefore, hypothesis 4 and hypothesis 6 in this study were accepted.

Job Satisfaction as a mediating variable is also significant. This is indicated by the results of the path coefficient of 0.258 and the T-Statistics value of 6.381. The T-Statistics value is smaller than the T-table value. This means that job satisfaction for employees in polytechnic colleges positively and significantly affect work environment and employee performance.

This finding supports several previous studies related to the link of work environment, job satisfaction, and employee performance. Previous research has shown that the correlation among work environment, employee satisfaction and performance in educational institutions, the banking sector, and the telecommunications industry in Pakistan is significant. The work environment and job satisfaction also positively correlated (Raziq & Maulabakhsh, 2015). Managers recognize the essential of a virtuous work environment to make best use of the level of job satisfaction. The researchs of Jain and Kaur (2014) and Muguongo, et al. (2015) also found that work environment influence the job satisfaction. The banking industry in India proves that the work environment that is not conducive negatively affect on employee satisfaction resulting in declining employee performance (Dhamija et al., 2019).

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#### 4.6 Job satisfaction and employee performance

The result of the effect of job satisfaction on employee performance, as shown in figure 2 and table 8, indicates that the two variables positively and significantly related each other (Coefficient Value 0.756; T-Statistic 27,901 > 1.96). Job satisfaction felt by employees will increase along with the increase in employee performance in polytechnic colleges. Therefore, hypothesis 7 in this study was accepted.

The findings support previous research in job satisfaction and employee performance (Amiroso & Mulyanto, 2015; Chong & Leung, 2018; Dhamija et al., 2019; Jiang & Zhang, 2018; Kataria et al., 2019; Martinson & De Leon, 2018). To improve overall performance, managers target and focus on the welfare of their employees so as to encourage employees to work better. This is an effort to satisfy the workers (Shahzad et al., 2018).

Job satisfaction is one important aspect in the practice of organizational behavior and human resource management. It means that job satisfaction can affect happiness, morale, and employee motivation in increasing productivity (Mabaso & Dlamini, 2017). Owusu (2014) states that job satisfaction is a feeling of preference or satisfaction with one's work or experience at work. This condition, according to him, can lead employees to a condition where they can improve their performance level. Meanwhile, in different conditions such as feeling displeased or emotionally dissatisfied at work, it can cause low performance of employees. Meanwhile, on the other hand, high performance is very important for the organization to achieve what has been the goal.

#### 5. Conclusions

This study shows that compensation, satisfaction and performance are not correlated positively. In addition, job satisfaction as a mediating variable in compensation and employee performance is not proven. This means that even though compensation is increased for employees it doesn't improve their performance. It is because some employees consider that giving compensation by the organization is an obligation and a necessity for what employees give to the organization. State Polytechnic is expected to focus more on the work environment to improve employee performance. The current work environment in polytechnics both physically and non-physically is considered equally important by employees. To improve employee satisfaction, the work environment has proven to be a trigger for employees to feel satisfied with what they have been doing so that they will work more effectively and efficiently in helping the organization achieve its goals. The role of job satisfaction as compensation mediation on employee performance has been proven to have no effect either partially or simultaneously. Meanwhile, job satisfaction as a mediator in work environment and employee performance is proven positively and significantly. This shows that the work environment can improve employee performance both directly and indirectly through job satisfaction.

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