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**THE EFFECTS OF COMPENSATION AND WORK COMPETENCE ON  
EMPLOYEE PERFORMANCE: THE MEDIATING ROLE OF JOB  
SATISFACTION AMONG EMPLOYEES AT BANK BTN GRESIK BRANCH**

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**Abstract**

*This study aims to examine the effects of compensation and work competence on employee performance, with motivation serving as an intervening variable among employees of Bank BTN Gresik Branch. The study adopts a quantitative descriptive approach. In this research, compensation and competence are treated as independent variables. The study was conducted at the Bank BTN Gresik Branch office, involving a total of 60 respondents selected using a saturated sampling technique. The data were analyzed using path analysis, preceded by instrument testing and classical assumption tests, followed by hypothesis testing. The results indicate that compensation has a significant effect on employee performance. Likewise, competence has a significant effect on employee performance, and motivation also significantly influences employee performance. Furthermore, compensation and competence are found to significantly affect motivation. In addition, compensation has an indirect effect on employee performance through motivation, and competence also has an indirect effect on employee performance through motivation among employees of Bank BTN Gresik Branch. The path analysis results confirm that both compensation and competence indirectly influence employee performance through motivation. However, the findings reveal that the total effect coefficient of compensation is lower than that of competence. Overall, the results demonstrate that all hypotheses are supported, indicating that compensation and competence have both direct and indirect effects on motivation and employee performance. It is expected that the findings of this study can contribute to improving employee performance at Bank BTN Gresik Branch by emphasizing the importance of compensation, competence, and motivation.*

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**TRANSFORMASI PORTOFOLIO STRATEGIS MENGGUNAKAN MATRIKS  
BCG DALAM INDUSTRI REKAYASA**

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**Abstrak**

*Penelitian ini bertujuan untuk mengetahui pengaruh kompensasi dan kompetensi terhadap kinerja karyawan melalui motivasi sebagai variabel intervening pada karyawan Bank BTN Cabang Gresik. Pendekatan yang digunakan adalah*

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*pendekatandeskriptif kuantitatif, Dalam penelitian ini ada faktor yang menjadi acuan bagi peneliti untuk di jadikan refrensi variabel bebas yakni kompensasi dan kompetensi. Lokasi penelitian di Kantor Bank BTN Cabang Gresik, jumlah responden berjumlah 60 orang responden, menggunakan metode sampel jenuh. Hasil dari penelitian ini dianalisis dengan analisis path dan harus melalui uji instrument, asumsi klasik, dan kemudian pembuktian hipotesis penelitian. Berdasarkan hasil penelitian bahwa kompensasi berpengaruh terhadap kinerja karyawan. kompetensi berpengaruh terhadap kinerja karyawan. motivasi berpengaruh terhadap kinerja karyawan. kompensasi berpengaruh terhadap motivasi. kompetensi berpengaruh terhadap motivasi. kompensasi berpengaruh tidak langsung terhadap kinerja karyawan melalui motivasi. kompetensi berpengaruh tidak langsung terhadap kinerja karyawan melalui motivasi pada karyawan Bank BTN Cabang Gresik. Pengujian analisis path membuktikan bahwa kompensasi dan kompetensi berpengaruh secara tidak langsung terhadap kinerja melalui motivasi, akan tetapi berdasarkan hasil temuan nilai koefisien pengaruh total kompensasi lebih kecil dibandingkan variabel kompetensi. Hasil dari penelitian membuktikan bahwa kesemua hipotesis dapat diterima (kompensasi, kompetensi, kualitas berpengaruh secara langsung dan tidak langsung terhadap motivasi dan kinerja karyawan). Diharapkan hasil penelitian ini dapat meningkatkan kinerja karyawan Bank BTN Cabang Gresik dengan memperhatikan kompensasi, kompetensi, motivasi.*

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## INTRODUCTION

Human Resource Management (HRM) represents the collective value of an organization's workforce in terms of capabilities, knowledge, skills, life experiences, and motivation, as defined by Robert L. Mathis and John Jackson (2011). According to Dessler (2011), HRM refers to policies and practices involved in managing human resources, particularly aspects related to managerial positions, including recruitment, selection, training, compensation, and performance appraisal. Based on these definitions, it can be concluded that human resource management is a systematic effort to enhance the value of human resources in terms of effectiveness and efficiency in order to achieve the goals of individuals, society, organizations, and companies. This implies that all organizational activities in achieving their objectives depend on the people who manage them. Therefore, human resources (employees) must be managed appropriately to ensure the successful attainment of organizational goals.

In the era of globalization, increasingly intense industrial competition often gives rise to challenges that may lead to organizational failure. To anticipate such risks, high-quality human resources are essential. Human resources are a critical factor in determining organizational success, as individuals possess thoughts, emotions, needs, and expectations. Consequently, strategies for managing human resources should focus on enhancing employee competence and establishing clear standards for each functional role. Each employee carries out tasks according to their respective positions, and effective collaboration among employees is necessary to facilitate the exchange of work-related information, thereby improving overall efficiency.

One industrial sector that warrants particular attention is the banking industry in Indonesia, which plays a fundamental role in the country's economic condition. The importance of this sector stems from the fact that banking services have become an essential necessity in Indonesia. According to Mangkunegara (2015), performance refers

to the quality and quantity of work achieved by an employee in carrying out tasks in accordance with assigned responsibilities. Employee performance is a function of both motivation and ability, and it plays a crucial role in enabling organizations to achieve their objectives. Higher performance reflects increased efficiency, effectiveness, and quality in completing assigned tasks within an organization.

Motivation is a key factor that must be carefully considered by organizations if they expect employees to contribute positively toward achieving organizational goals. With strong motivation, employees demonstrate greater enthusiasm in fulfilling their duties and responsibilities. Irawati (2012) states that motivated employees tend to be more enthusiastic, whereas those with low motivation often exhibit dissatisfaction with their work, which in turn negatively affects their performance. The importance of motivation lies in its role in driving, directing, and sustaining human behavior, encouraging individuals to work diligently and enthusiastically in order to achieve optimal results (Hasibuan, 2015). When motivation is effectively fostered, employees are more likely to be engaged in their work and capable of overcoming challenges encountered in the workplace.

Compensation refers to the rewards provided by an organization to employees in return for their contributions in performing tasks, duties, and responsibilities aimed at achieving organizational objectives (Tursina, 2016). A study by Sitepu (2012) found that both financial and non-financial compensation have a very strong correlation with employee performance, indicating that compensation plays a crucial role in enhancing performance outcomes. Fundamentally, the need for compensation is closely related to human needs. Compensation is important for employees as it reflects the value of their work in the eyes of colleagues, family, and society. Therefore, an adequate compensation system, particularly in relation to employee motivation, is essential for organizations operating in environments characterized by high uncertainty.

Compensation in the form of salaries and allowances constitutes a standard and mandatory form of remuneration provided by organizations. However, incentive compensation is more specific in nature, as it represents monetary rewards granted to employees based on their achievements in meeting or exceeding predetermined targets (Triyono Nugroho, 2009). Thus, incentive compensation is closely associated with the effectiveness of management control systems. Organizations must ensure that compensation is distributed fairly in accordance with employee productivity. As a key function of human resource management, compensation emphasizes the development of appropriate wage and salary systems that not only enhance organizational profitability but also ensure employee satisfaction.

Competence is defined as an individual characteristic associated with superior performance in a specific job (Agung, 2007). It encompasses three main aspects: knowledge and expertise, behavioral capabilities, and the alignment between individual motivation and job requirements (Pradiansyah, 2006). According to Wibowo (2009), competence can be categorized into two types: soft skills and hard skills. Soft skills refer to the ability to manage work, maintain interpersonal relationships, and communicate effectively, including communication, leadership, and interpersonal skills. Empirical findings by Irham (2012) indicate that competence and performance simultaneously have a significant effect on employee compensation, while competence individually has a significant effect on compensation, and performance has a positive but not statistically significant effect.

As one of the largest banks in Indonesia, Bank BTN continuously strives to provide the best services to its customers. To achieve this goal, employee performance must be maintained and enhanced to ensure organizational stability. However, like many other organizations, Bank BTN faces challenges, including a decline in employee motivation, which is attributed to disparities in competence and compensation over time. Enhancing employee competence is therefore essential to support both performance and motivation (Nurmianto, Siswanto, & Sapuwan, 2006).

The primary objective of providing compensation, whether direct or indirect, is to serve as a form of organizational appreciation for employee performance, which in turn encourages behaviors aligned with organizational goals (Notoatmodjo, 2008). With a workforce of 60 employees serving thousands of customers annually, a high level of dedication is required to achieve optimal performance. According to Keith Davis (as cited in Mangkunegara, 2015), competence and motivation are key factors influencing performance. In recent years, employees at Bank BTN have experienced a decline in work motivation, as reflected in relatively low key performance indicator (KPI) achievements. This decline is associated with decreasing levels of competence and annual compensation. Motivation itself is a driving force that encourages employees to perform their tasks willingly and effectively in order to achieve organizational goals efficiently (Sarwoto, 2013).

Based on KPI evaluation data, performance in the first semester of 2018 reached Grade A (90.70%), categorized as excellent, but declined to 80.14% in the second semester of 2018. In the first semester of 2019, performance dropped to Grade B (80.12%) and slightly decreased further to 80.01% in the second semester of 2019. In early 2020, performance declined significantly to Grade C (70.89%). Further observations also revealed a decrease in annual bonuses provided to employees.

Initial observations indicate a continuous decline in employee compensation over the years. In 2018, employees received annual compensation equivalent to five times their salary, which decreased to 3.5 times in 2019. Similarly, competency development programs, which were previously conducted two to three times annually in 2018, were reduced to once per year in 2019 and 2020.

One of the most effective ways to enhance employee motivation is by aligning compensation with employee competence. When compensation programs are perceived as fair and competitive, organizations are better positioned to attract, retain, and motivate high-potential employees, thereby improving performance and productivity. This, in turn, enables organizations to remain competitive and sustain long-term growth (Triyono Nugroho, 2009). However, observations indicate that participation in training programs over the past three years has remained below 90%, suggesting a lack of employee awareness regarding the importance of such initiatives.

Training programs organized by the human resources department at Bank BTN Gresik Branch are crucial for enhancing employee skills, even though participation is not mandatory. These programs require greater employee awareness and engagement to maximize their effectiveness. The available data indicate that employee participation rates have not met the expected minimum attendance levels. Based on these conditions, this study seeks to further examine the extent to which compensation and work competence influence employee motivation using path analysis. The research gap lies in understanding the indirect effects of these variables on employee performance through motivation. The object of this study is Bank BTN Gresik, a state-owned enterprise (BUMN) that plays a significant role in supporting economic development by providing

credit to both small and large-scale entrepreneurs. Operating as a limited liability company, Bank BTN is widely recognized as a pioneer in housing loan (KPR) services in Indonesia. Therefore, this study aims to provide a deeper analysis of the effects of compensation and competence on employee performance through motivation among employees at Bank BTN Gresik Branch.

## **LITERATURE RIVIEW**

### **Compensation**

Fundamentally, individuals work to earn income in order to fulfill their basic needs. For this reason, employees tend to value hard work and demonstrate increasing loyalty to the organization. In response, organizations provide recognition for employee performance in the form of compensation. One of the key strategies employed by management to improve job performance, enhance motivation, and increase employee productivity is through the provision of compensation (Mathis & Jackson, 2000).

Hani Handoko (2003) emphasizes that compensation is important for employees as individuals, as the level of compensation reflects the value of their contributions relative to their peers, family, and society. Compensation is often also referred to as a reward and can be defined as any form of remuneration provided to employees in return for their contributions to the organization (Panggabean, 2002).

Furthermore, Hasibuan (2002) presents several definitions of compensation from various scholars. According to William B. Werther and Keith Davis, compensation refers to what employees receive as a return for the work they perform. This may take the form of hourly wages or periodic salaries, which are designed and administered by the human resource department. Meanwhile, Andrew F. Sikula defines compensation as anything that is constituted or considered as a form of reward or equivalent return for services rendered.

### **Work Competence**

Work competence refers to an individual's capacity to perform various tasks within a job (Robbins, 2012). It is one of the most critical factors influencing employee success in carrying out job responsibilities. Competence represents the potential within an individual that enables them to perform tasks effectively; conversely, a lack of competence may hinder job performance.

Mathis and Jackson (2011) argue that the ability to compete and adapt to market changes, along with addressing various organizational challenges, are key determinants of organizational success. Human resources are, or should be, involved in these processes by identifying ways to enhance organizational productivity, effectively respond to global competition, and foster innovation. Such perspectives reflect a strategic approach to human resource management.

The essence of strategic planning lies in understanding changes in the external environment. Formulating a strategic plan requires identifying, analyzing, and balancing external opportunities and threats with internal strengths and weaknesses. Human resources can contribute significantly to this process by monitoring environmental changes and identifying critical external factors that influence organizational success. Strategic planning also requires competitive intelligence, and human resource management can provide valuable insights, such as information regarding competitors' incentive systems or regulatory developments, including labor laws and health insurance policies.

From an operational perspective, competence management primarily focuses on development, as enhancing employee competence is essential. Work competence significantly influences the quality and effectiveness of employee performance. This is because competence encompasses various elements, including skills, abilities, and other supporting capacities reflected in both physical and psychological conditions (Soeroto, 2012). Thus, competence can be understood as the internal strength that enables individuals to perform their work effectively.

Work competence plays a decisive role in determining employee performance within an organization. The success and effectiveness of task execution depend largely on employee performance (Hasibuan, 2002). Therefore, competence is a crucial factor enabling employees to complete their tasks successfully. In organizational contexts, higher-level positions typically require greater intellectual competence rather than physical competence.

An individual's capability is closely related to their physical and psychological conditions, which ultimately influence their level of competence in performing tasks (Manuaba, 2000). Based on the above discussion, competence is reflected in an individual's knowledge and skills, supported by their physical and psychological readiness. Therefore, performing a job effectively requires not only knowledge and skills but also strong underlying competence to ensure optimal performance.

## **Motivation**

The term motivation is derived from the Latin word *movere*, which means "to move." Its root word, *motive*, refers to a drive, cause, or reason that leads an individual to act. Thus, motivation can be defined as a condition that encourages or drives an individual to engage in a particular behavior or activity (Nawawi, 2003). Work motivation specifically refers to the internal drive or enthusiasm that stimulates an individual's willingness to perform their job effectively (Martoyo, 2010).

Motivation serves as a natural force that compels individuals to satisfy their needs and sustain their existence. A fundamental key to understanding motivation lies in a deep comprehension of human nature. To avoid ambiguity in the use of the term, Manullang (as cited in Martoyo, 2010) distinguishes several related concepts:

- **Motive:** A motive is defined as a driving force or internal energy that prompts individuals to act. It represents the underlying reason or impulse that directs human behavior.
- **Motivation:** Motivation refers to the process or condition that generates motives, or the factors that stimulate individuals to act in a certain manner.
- **Work Motivation:** Work motivation is derived from the general concept of motivation and refers specifically to the drive or enthusiasm that encourages individuals to perform their work duties.
- **Incentive:** An incentive is a tool or means used to stimulate motivation. It can be considered a motivational instrument or mechanism designed to encourage individuals to act.

In summary, motivation plays a crucial role in shaping employee behavior by directing, energizing, and sustaining work-related efforts, ultimately contributing to improved performance and organizational outcomes.

## **Employee Performance**

Employee performance refers to the outcomes achieved by an individual in carrying out assigned tasks in accordance with established standards and responsibilities. According to Mangkunegara (2015), performance is defined as the quality and quantity of work accomplished by an employee in executing their duties based on the responsibilities assigned to them. This definition highlights that performance is not only concerned with the results achieved but also with how effectively and efficiently tasks are completed.

Performance is influenced by several key factors, particularly ability and motivation. Employees with high levels of competence and strong motivation are more likely to demonstrate superior performance. Conversely, inadequate competence or low motivation may lead to suboptimal performance outcomes. Therefore, organizations must ensure that employees possess the necessary skills and are adequately motivated to perform their roles effectively.

Furthermore, performance can be understood as a function of the interaction between individual capabilities and organizational support systems. This includes factors such as training, compensation, leadership, and work environment, all of which contribute to enhancing employee effectiveness. According to Hasibuan (2002), employee performance plays a vital role in determining organizational success, as it directly affects productivity and the achievement of organizational objectives.

High employee performance reflects increased efficiency, effectiveness, and quality in completing assigned tasks. It also indicates that employees are able to meet or exceed the expectations set by the organization. In this context, performance measurement becomes essential to evaluate employee contributions and to identify areas for improvement.

In summary, employee performance is a critical component of organizational success, shaped by the interaction of competence, motivation, and organizational support. Therefore, organizations must continuously develop strategies to enhance employee performance in order to achieve sustainable competitive advantage.

## **METHODS**

### **Population**

According to Istijanto (2014), a population is defined as the total number of all members under investigation. Similarly, Arikunto (2014) defines population as the entirety of research objects. In addition, Malhotra (2006) describes population as the complete group of individuals, events, or items observed by a researcher.

In this study, the population consists of all employees of PT Bank Tabungan Negara (BTN) Gresik Branch, located at Komplek Pertokoan Multi Sarana Plaza Blok C No. 1–3, Jalan Gubernur Suryo, Gresik, East Java. The total population comprises 60 employees.

### **Sample**

According to Margono (2004), a sample is a subset of the population selected using specific procedures. Sugiyono (2016) defines saturated sampling (census sampling) as a technique in which all members of the population are used as the sample. Based on this approach, the sample in this study includes the entire population, namely all 60 employees of PT Bank BTN Gresik Branch.

## RESULT

The collected data were subjected to instrument testing and classical assumption tests. The results indicate that the data met the required criteria for further analysis.

Data in this study were collected using a questionnaire, employing a five-point Likert scale with the following scoring categories: (1) Strongly Agree (score = 5), (2) Agree (score = 4), (3) Neutral (score = 3), (4) Disagree (score = 2), and (5) Strongly Disagree (score = 1).

The analytical technique applied in this study is path analysis. Prior to conducting the main analysis, the data were tested through several procedures: (1) instrument testing, which includes validity and reliability tests; (2) classical assumption tests; and (3) path analysis followed by hypothesis testing. All statistical analyses were performed using SPSS version 15 for Windows.

### Partial Test (Direct Effect Hypothesis Testing)

This hypothesis testing is conducted to examine whether exogenous variables have a direct effect on endogenous variables used in this study. The statistical test is performed by comparing the significance value with the probability level or by comparing the calculated  $t$ -value ( $t$ -statistic) with the critical  $t$ -value ( $t$ -table).

The criteria for statistical significance testing are as follows:

1. If the significance value is greater than 0.05,  $H_0$  is accepted and  $H_a$  is rejected (the hypothesis is not supported).
2. If the significance value is less than 0.05,  $H_0$  is rejected and  $H_a$  is accepted (the hypothesis is supported).

The results of the hypothesis testing based on significance values obtained from SPSS analysis are presented in the following subsection.

### Direct Effect of Compensation ( $X_1$ ) on Employee Performance (Y)

The results of the data analysis examining the effect of the compensation variable on employee performance are presented in Table 4.19.

**Tabel 4.19**

#### **Pengaruh Langsung Kompensasi Terhadap Kinerja karyawan**

|       | Variabel   | Sig. |
|-------|------------|------|
| Model | KOMPENSASI | .001 |
|       | KOMPETENSI | .000 |

Based on Table 4.19, the significance value is 0.001, which is lower than the threshold of 0.05. This indicates that compensation has a statistically significant effect on employee performance. Therefore, the null hypothesis ( $H_0$ ) is rejected, and the alternative hypothesis ( $H_1$ ) is accepted.

### Direct Effect of Competence ( $X_2$ ) on Employee Performance (Y)

The results of the data analysis examining the effect of the competence variable on employee performance are presented in Table 4.20.

**Table 4.20**

#### **Direct Effect of Competence on Employee Performance**

| Model | Variabel | Sig. |
|-------|----------|------|
|-------|----------|------|

|            |      |
|------------|------|
| KOMPENSASI | .001 |
| KOMPETENSI | .000 |

Based on Table 4.20, the significance value for competence is 0.000, which is lower than the threshold of 0.05. This indicates that competence has a statistically significant effect on employee performance. Therefore, the null hypothesis ( $H_0$ ) is rejected, and the alternative hypothesis ( $H_1$ ) is accepted.

#### **Direct Effect of Motivation (Z) on Employee Performance (Y)**

The results of the data analysis examining the effect of the motivation variable on employee performance are presented in Table 4.21.

**Table 4.21**  
*Direct Effect of Motivation on Employee Performance*

|       | Variabel   | Sig. |
|-------|------------|------|
| Model | KOMPENSASI | .049 |
|       | KOMPETENSI | .003 |
|       | MOTIVASI   | .000 |

Based on Table 4.21, the significance value for motivation is 0.000, which is below the threshold of 0.05. This indicates that motivation has a statistically significant effect on employee performance. Therefore, the null hypothesis ( $H_0$ ) is rejected, and the alternative hypothesis ( $H_1$ ) is accepted.

#### **Direct Effect of Compensation ( $X_1$ ) on Employee Performance (Y)**

The results of the data analysis examining the effect of compensation on employee performance are presented in Table 4.22.

**Table 4.22**  
*Direct Effect of Compensation on Employee Performance*

|       | Variabel   | Sig. |
|-------|------------|------|
| Model | KOMPENSASI | .049 |
|       | KOMPETENSI | .003 |
|       | MOTIVASI   | .000 |

Based on Table 4.22, the significance value associated with compensation is 0.049, which is lower than 0.05. This indicates that compensation has a statistically significant effect on employee performance. Therefore, the null hypothesis ( $H_0$ ) is rejected, and the alternative hypothesis ( $H_1$ ) is accepted.

#### **Direct Effect of Competence ( $X_2$ ) on Employee Performance (Y)**

The results of the data analysis examining the effect of the competence variable on employee performance are presented in Table 4.23.

**Table 4.23**  
*Direct Effect of Competence on Employee Performance*

|       | Variabel   | Sig. |
|-------|------------|------|
| Model | KOMPENSASI | .049 |
|       | KOMPETENSI | .003 |
|       | MOTIVASI   | .000 |

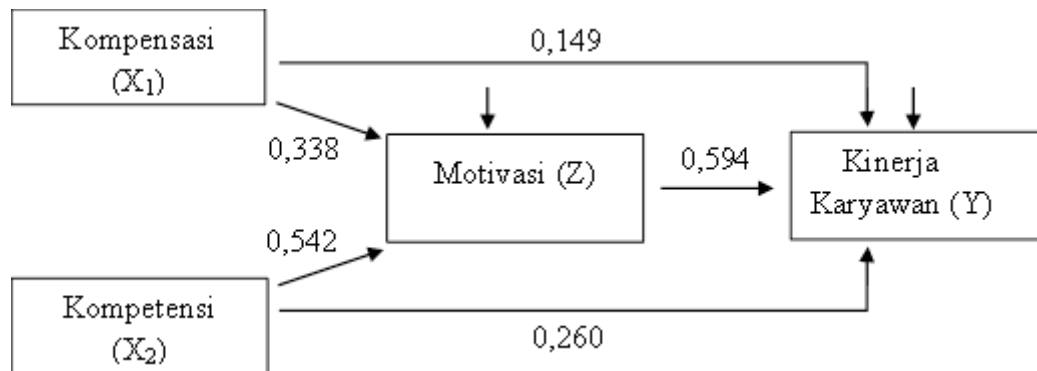
Based on Table 4.23, the significance value for competence is 0.003, which is lower than the threshold of 0.05. This indicates that competence has a statistically significant effect on employee performance. Therefore, the null hypothesis ( $H_0$ ) is rejected, and the alternative hypothesis ( $H_1$ ) is accepted.

**Path Analysis**

Path analysis in this study aims to describe and examine the structural relationships among the variables under investigation. In this model, compensation and work competence are treated as independent (exogenous) variables, employee performance as the dependent (endogenous) variable, and motivation as the intervening (mediating) variable.

Path analysis enables the examination of both direct and indirect effects among variables. A direct effect occurs when an independent variable directly influences a dependent variable. In contrast, an indirect effect occurs when an independent variable influences a dependent variable through a mediating variable.

The results of the path analysis based on the empirical findings of this study are presented as follows:



**Gambar 4.8**  
*Analisis Path*

**Structural Equations**

The structural equations based on Figure 4.8 are specified as follows:

- $Y = 0.338X_1 + 0.149X_2 + 0.382Z$  (Structural Equation 1)
- $Z = 0.167X_1 + 0.192X_2 + 0.531$  (Structural Equation 2)

**Results of Path Analysis and Hypothesis Testing**

The following presents the direct and indirect effects identified in this study:

### Direct Effects

- a. The effect of compensation ( $X_1$ ) on employee performance (Y):  
 $X_1 \rightarrow Y = 0.149$
- b. The effect of competence ( $X_2$ ) on employee performance (Y):  
 $X_2 \rightarrow Y = 0.542$
- c. The effect of compensation ( $X_1$ ) on motivation (Z):  
 $X_1 \rightarrow Z = 0.338$
- d. The effect of competence ( $X_2$ ) on motivation (Z):  
 $X_2 \rightarrow Z = 0.260$
- e. The effect of motivation (Z) on employee performance (Y):  
 $Z \rightarrow Y = 0.594$

### Indirect Effects

- a. The indirect effect of compensation ( $X_1$ ) on employee performance (Y) through motivation (Z):
  - Indirect effect:  $0.338 \times 0.594 = 0.200$
  - Direct effect:  $0.149$
  - Total effect:  $0.200 + 0.149 = 0.349$
- b. The indirect effect of competence ( $X_2$ ) on employee performance (Y) through motivation (Z):
  - Indirect effect:  $0.542 \times 0.594 = 0.321$
  - Direct effect:  $0.260$
  - Total effect:  $0.321 + 0.260 = 0.581$

### Interpretation of Path Analysis Results

Based on the path analysis results, the indirect effect of compensation ( $X_1$ ) on employee performance (Y) through motivation (Z) (0.200) is greater than its direct effect (0.149). This indicates that motivation mediates the relationship between compensation and employee performance. Therefore, the total effect of compensation on performance is 0.349, confirming that Hypothesis 6 is supported ( $H_0$  is rejected,  $H_6$  is accepted).

Similarly, the indirect effect of competence ( $X_2$ ) on employee performance (Y) through motivation (Z) (0.321) is greater than its direct effect (0.260). This suggests that motivation also mediates the relationship between competence and employee performance. The total effect of competence on performance is 0.581, indicating a stronger influence compared to compensation. Thus, Hypothesis 7 is supported ( $H_0$  is rejected,  $H_7$  is accepted).

### DICUSSION

The findings of this study provide strong empirical evidence regarding the relationships among compensation, work competence, motivation, and employee performance. Overall, the results confirm that both compensation and competence have significant direct and indirect effects on employee performance, with motivation playing a crucial mediating role.

First, the results indicate that compensation has a significant positive effect on employee performance. This finding is consistent with the theoretical perspective proposed by Mathis and Jackson (2000), which emphasizes that compensation serves as a strategic tool to enhance employee motivation and performance. Adequate and fair compensation not only fulfills employees' financial needs but also reflects recognition of

their contributions, thereby encouraging higher levels of performance. This result is also in line with previous empirical findings, such as Sitepu (2012), which demonstrated a strong relationship between compensation and performance.

Second, competence is found to have a significant and relatively stronger effect on employee performance compared to compensation. This finding supports the argument of Robbins (2012) and Wibowo (2009), who assert that competence—comprising knowledge, skills, and abilities is a fundamental determinant of job performance. Employees with higher competence levels are more capable of completing tasks efficiently and effectively, which directly contributes to improved organizational outcomes. The stronger effect of competence observed in this study suggests that internal capabilities may play a more critical role than external rewards in driving performance.

Third, motivation is shown to have a significant positive effect on employee performance. This result aligns with motivational theories, particularly those emphasizing that motivation acts as a driving force that directs and sustains work behavior (Nawawi, 2003; Martoyo, 2010). Employees with higher motivation levels tend to exhibit greater enthusiasm, commitment, and persistence in achieving organizational goals, ultimately leading to enhanced performance.

More importantly, the path analysis reveals that motivation mediates the relationship between both compensation and competence and employee performance. The indirect effects of compensation and competence through motivation are greater than their respective direct effects, indicating the presence of partial mediation. This suggests that compensation and competence do not only influence performance directly but also indirectly by enhancing employee motivation. In other words, employees who perceive fair compensation and possess strong competencies are more likely to be motivated, which in turn leads to better performance outcomes.

These findings highlight the critical role of motivation as an intervening variable in organizational behavior models. From a theoretical standpoint, this supports the integration of human resource management and motivational theories, suggesting that organizational policies (e.g., compensation systems) and individual attributes (e.g., competence) must be aligned to foster motivation and optimize performance.

From a practical perspective, the results imply that organizations, particularly in the banking sector, should adopt a holistic approach in managing human resources. Improving compensation systems alone may not be sufficient; organizations must also invest in competency development and ensure that such efforts effectively enhance employee motivation. For instance, training programs, career development opportunities, and performance-based incentives can be strategically designed to strengthen both competence and motivation simultaneously.

Furthermore, the finding that competence has a stronger total effect on performance than compensation suggests that long-term organizational success depends more on developing human capital than merely providing financial rewards. Therefore, organizations should prioritize continuous learning and development initiatives to maintain a competitive advantage.

## **CONCLUSION**

This study concludes that compensation and work competence significantly influence employee performance, both directly and indirectly through motivation. While compensation contributes to enhancing performance by fulfilling employees' financial and psychological needs, competence emerges as a more dominant factor, reflecting the

importance of employees' knowledge, skills, and abilities in achieving optimal work outcomes. In addition, motivation plays a critical mediating role, strengthening the relationship between both compensation and competence and employee performance.

The findings highlight that the indirect effects of compensation and competence on performance through motivation are greater than their direct effects, indicating the presence of partial mediation. This suggests that improving employee performance cannot rely solely on compensation or competence in isolation; instead, organizations must foster employee motivation as a key mechanism that translates these factors into higher performance. Therefore, an integrated human resource strategy that aligns fair compensation systems, competency development, and motivational enhancement is essential to achieving sustainable organizational performance.

### **Managerial Implications and Recommendations**

The findings of this study indicate that competence has a stronger influence on employee performance through motivation compared to compensation. Nevertheless, compensation remains an important factor that should be improved, particularly through fair and competitive reward systems such as bonuses and employee recognition, to enhance motivation and performance.

In addition, organizations should prioritize the development of employee competencies through continuous training and professional development programs, as competence plays a dominant role in improving performance. Motivation is also proven to significantly affect employee performance, highlighting the need for an integrated human resource strategy that aligns compensation and competence development to foster higher employee motivation.

Overall, improving employee performance requires a comprehensive approach that simultaneously enhances compensation, competence, and motivation. Furthermore, future research is recommended to examine additional factors, such as leadership and workload, to provide a more comprehensive understanding of employee performance.

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