The Influence of Organizational Culture and Compensation on Employee Performance with Work Motivation as a Mediating Variable

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ABSTRACT

Objective – This study examines the influence of organizational culture and compensation on employee performance with work motivation as a mediating variable. This study was conducted at the State Owned Bank of Pontianak, Indonesia.

Methodology/Technique – The population in this study is 150 employees from a State-Owned Bank. The sampling method uses census techniques so that the number of samples used is 150 employees. The research data was collected using a questionnaire which is then analyzed using a path analysis technique using SPSS software to examine the relationships among the constructs, which are: organizational culture, compensation, work motivation and employee performance.

Findings – The results show that, in the first substructure, organizational culture and compensation have a significant influence on work motivation. In the second substructure, organizational culture, compensation and work motivation have a significant influence on employee performance. The path analysis results show that work motivation does not mediate the relationship between organizational culture and employee performance, whereas the relationship between compensation and employee performance is mediated by work motivation.

Novelty – Previous studies have been carried out in many western countries, raising doubts about generalizations in the same research results in developing countries such as Indonesia. Therefore, the novelty is that this study is carried out in the context of developing countries, especially in the State-Owned Bank in West Kalimantan, Indonesia.

Type of Paper: Empirical.

JEL Classification: L22, M12, M19.

Keywords: Organizational Culture; Compensation; Work Motivation; Employee Performance.

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1. Introduction

Human resources are very important and cannot be separated from an organization or company. Human resources determines the development of an organization.

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As one of the functions in an organization, human resources must be managed properly to increase the effectiveness and efficiency of the organization. In this era of increasing business competition, the performance of human resources must increase.

One step to maintain or improve the performance of human resources is to evaluate employee performance continuously and motivate employees to improve their performance and achieve organizational goals. If the goals of the organization can be achieved, this will have a positive impact on the organization's competitive position in the market.

Several factors can influence employee performance, such as: organizational culture, compensation, and work motivation. Organizational culture is the essence of what is important in the organization. The activity gives commands and prohibitions, and illustrates what can and cannot be done that will regulate the behavior of members. Hence, organizational culture dictates what we might do or not do, and is considered as a guide for organizational activities. In essence, corporate culture is a tool to unite every individual who carries out joint activities (Beach, 1993). Organizational culture is often portrayed in a shared sense (Glaser et. al., 1987).

According to Mathis and Jackson (2000) increasing motivation and improving employee performance can be achieved through compensation. Dessler (2010) states that employee compensation refers to forms of payment for employees for their work. Mondy (2008) states that compensation includes all gifts given to employees as a form of appreciation for their work. Jones and George (2008) state that motivation is the encouragement of a person based on how they behave and how they work within organizations. Robbins (2006) states that employee performance is a function of the interaction between ability and motivation. Hence, employee performance is the achievement of one's work as measured by the criteria set by the organization.

Susan et. al., (2012) state that work motivation affects employee performance. Hameed et al., (2014), and Soeters (2006) state that compensation affects employee performance. Agwu (2014), Shazad et. al., (2013), Alyahyah et. al., (2013), Eeden (2012), and Daft (2010) state that organizational culture influences employee performance. This shows that most research on organizational culture issues, compensation, work motivation, and employee performance were carried out in western countries. Thus, there are doubts about generalizations based on the findings of previous studies applied in developing countries such as Indonesia. Further research on organizational culture, compensation, work motivation, and employee performance are therefore very important for developing countries such as Indonesia, especially for State Owned Banks.

2. Literature Review

2.1 Organizational Culture and Work Motivation

Organizational culture is a characteristic that is held in high esteem by the organization and is used to differentiate one organization from another (Lee & Yu, 2004). Organizational culture refers to the values and norms of behavior that are accepted and understood together by members of the organization as a basis for the rules of behavior within the organization. Motive is defined as a tendency to move, starting from self-impulse and ending with adjustment (Sperling, 1987). According to Luthans (2002), motivation is the process of producing and maintaining behavior and performance. One way to motivate individuals is to make employees more satisfied so that they are committed to their work. The organization will influence the level of employee motivation and will make employee motivation high to control and improve organizational culture (Bagirova & Vavilova, 2015). Based on the explanation above, the following hypothesis is proposed:

H1: Organizational Culture has a significant influence on Work Motivation.

2.2 Compensation and Work Motivation

According to Anthony et. al., (2000), compensation can be used to encourage and motivate employees to achieve organizational goals. Motivation refers to a high willingness to achieve organizational goals, conditioned by the ability to meet individual needs. Previous studies on compensation and motivation carried out by Ghazanfar et. al., (2011) and Khan and Mufti (2012) show that compensation has a significant effect on motivation. Therefore, the following hypothesis is proposed:

H2: Compensation has a significant influence on work motivation.

2.3 Organizational Culture and Employee Performance

According to Daft (2010), organizational culture can improve employee performance by motivating, shaping and channeling their behavior towards achieving company goals. Performance is the result of work that can be achieved by a person or group of people in an organization in accordance with their respective authorities and responsibilities. According to Walker (2007), performance as a result of work behavior from targeted achievement or part of tasks by each individual in the organization must be achieved. Some previous research also states that there is a relationship between organizational culture and performance (Roos & Eeden, 2012; Alyahyah et. al., 2013; Shahzad et. al., 2013; Agwu, 2014). Organizational culture also has an influence on employee performance. Based on the explanation above, the following hypothesis is proposed:

H3: Organizational Culture has a significant influence on Employee Performance.

2.4 Compensation and Employee Performance

Compensation is a form of implementing human resource management functions that relate to all types of awards given to individuals for doing their work. According to Hameed et. al., (2014) and Teclemichael and Soeters (2006), compensation has an effect on employee performance because the appropriate amount of compensation will improve performance. Therefore, the following hypothesis is proposed:

H4: Compensation has a significant influence on Employee Performance.

2.5 Work Motivation and Employee Performance

Increased motivation leads to increased performance and decreased motivation causes a decrease in performance (Kothari, 2008). The higher the level of employee motivation in carrying out the work, the better the employee's performance will be. Susan et. al., (2012) state that work motivation influences employee performance. Based on the above, the following hypothesis is proposed:

H5: Work Motivation has a significant influence on Employee Performance.

The following conceptual research model was developed based on the theoretical and empirical evidence:

Figure 1. Conceptual Research Model

3. Research Methodology

This research uses quantitative research methods with a survey research approach. According to Kerlinger (2002), survey research is research conducted on large and small populations. The population in this study is 150 employees of the State Owned Bank. The sampling method uses census technique because all populations are sampled so the number of samples taken is 150 employees. The data is collected using a questionnaire. After the data was collected, it is analyzed by a path analysis technique using SPSS software to examine the relationships among the constructs, which are: organizational culture, compensation, work motivation and employee performance.

4. Results

4.1 Reliability Test

Table 4.1. Reliability Test

Variable	Cronbach's Alpha	Conclusion
Organizational Culture	0,861	Good Reliability
Compensation	0,683	Good Reliability
Work Motivation	0,823	Good Reliability
Employee Performance	0,873	Good Reliability

4.2. Regression and Path Analysis

Table 4.2. Regression Analysis First Substructure

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients		
		Std. Error		Beta		
Model		B	Error	Beta	T	Sig.
1	(Constant)	3,389	3,842		,882	,380

Organizational Culture	,335	,103	,302	3,246	,002
Compensation	,555	,104	,474	5,311	,000
a. Dependent Variable: Work Motivation					

Table 4.3. Regression Analysis Second Substructure

		Coefficients^a		t	Sig.
Model		Unstandardized Coefficients	Standardized Coefficients		
		B	Std. Error	Beta	
2	(Constant)	24,922	6,309		,000
	Organizational Culture	-,528	,179	-,400	,004
	Compensation	,189	,198	,136	,042
	Work Motivation	,445	,179	,374	,015
a. Dependent Variable: Employee Performance					

Table 4.4. Direct Effect, Indirect Effect and Total Effect

Path	Direct Effect	Indirect Effect	Total Effect
Org. Culture → Work Motivation	0,343	-	0,343
Compensation → Work Motivation	0,482	-	0,482
Org. Culture → Employee Performance	0,339	-	0,339
Compensation → Employee Performance	0,136	-	0,136
Work Motivation → Employee Performance	0,469	-	0,469
Org. Culture → Work Motivation → Employee Performance	0,400	$0,302 \times 0,374 = 0,113$	0,287
Compensation → Work Motivation → Employee Performance	0,136	$0,482 \times 0,469 = 0,226$	0,362

5. Discussion

The results show that, in the first substructure, organizational culture has a significant influence on work motivation with a significance of 0.002. The results of this study therefore support the results of research conducted by Bagirova and Vavilova (2015). Compensation has a significant influence on work motivation with a significance of 0.000. The results of this study therefore support the results of research conducted by Ghazanfar et. al., (2011) and Khan and Mufti (2012). Meanwhile, in the second substructure, the results show

that organizational culture has a significant influence on employee performance with a significance of 0.004. The results of this study are therefore consistent with the results of research conducted by Alyahyah et. al., (2013), Shahzad et. al., (2013) and Agwu (2014). Compensation has a significant influence on employee performance with a significance of 0.042. The results of this study are also in line with previous studies conducted by Hameed et. al., (2014).

Work motivation has a significant influence on employee performance with a significance of 0.015. The results of this study are strengthened by several previous studies, such as research conducted by Susan et. al., (2012). The results of this study also indicate that work motivation does not mediate the relationship between organizational culture and employee performance, whilst the relationship between compensation and employee performance is mediated by work motivation.

6. Conclusion

The results show that, in the first substructure, there was a significant influence between organizational culture and work motivation, and a significant influence between compensation and work motivation. In the second substructure, there is a significant influence between organizational culture and employee performance. There is also a significant influence between compensation and employee performance and between work motivation and employee performance. Furthermore, the results of this study also show that work motivation does not mediate the relationship between organizational culture and employee performance, whilst compensation for employee performance is mediated by work motivation.

In particular, this study implies that, in the context of the Indonesian State-Owned Bank, organizational culture and compensation have the power to influence the performance of employees to advance the organization. In addition, a leader can motivate their employees so that they will increase motivation in working for the organization and create a sense of satisfaction in work that will ultimately improve employee performance.

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