The Role of Compensation to Work Satisfaction and Employee Performance of Steel Fabricator Companies in East Java

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Abstract:
This study explains the relationship between compensation to job satisfaction and employee performance of steel fabricator company in East Java. Data were obtained in this study from a sample of 170 employees of the operator level in the production department consisting of fitter, welder and helper. The results obtained in this study there are three findings. First, compensation has significant effect on job satisfaction with p value 0,004. Second, the compensation significantly affects employee performance with the p value of 0,043 and the third job satisfaction significantly influence the performance with the result p value of 0,036. This study also shows that the compensation variable is not dominant to form the performance but must pass the employee's job satisfaction first.

Keywords: Compensation, job satisfaction, employee performance

I. Introduction

Entering today's increasingly competitive era of globalization, the development of the company depends on the company's ability to respond to changes effectively, by making adjustments globally. Business development and organization of the company is very dependent on the productivity of labor in the company. Therefore, in order to achieve the company's objectives, employees should be given a fair and fair remuneration in order to perform their duties more energetically and better. To improve employee morale the company needs to pay attention to the compensation given to employees. One way to increase employee productivity is by establishing a fair and reasonable compensation for the employee for the achievement of work achieved. On the basis of this, the provision of compensation within the company must be well regulated, so that it can be accepted by both parties.

Compensation is a reward given by the company to employees for the work it produces. According to Rivai and Sagala (2011: 741) compensation consists of two kinds, namely financial compensation and non-financial compensation. Providing compensation to employees should be reasonable and fair, because it can improve the ability of employees in improving work productivity which employees can then feel satisfaction in carrying out their work.

Providing compensation to employees can provide motivation and job satisfaction. In the opinion of Mangkunegara (2013: 84) the compensation given to employees is very influential on the level of job satisfaction and work motivation, as well as the work. Compensation in accordance with the type of work and job title employees will be able to provide satisfaction in work. A company must know the factors that can create job satisfaction for employees and can provide appropriate compensation, so that can be achieved employee job satisfaction that will be able to improve performance.

Compensation is used as a tool to motivate employees to improve job satisfaction and employee performance. Good performance is to achieve company goals, so that performance improvement is needed by a company. Providing good compensation can shape employee performance for the better in a company. Provision of compensation should be done fairly and appropriately, so that employees can feel job satisfaction and result in good performance. The object of this research is Steel Fabricator company in East Java. Where the company has various employees, then the needs of each employee is also different. Appropriate compensation will affect job satisfaction and employee performance.

II. Literature Review
2.1 Compensation

The definition of compensation according to Handoko (2014: 155) is everything that employees receive as a reward for their work. According to Mondy (2008: 4) states that compensation is the total benefits received by employees in lieu of services they have provided. Compensation is a remuneration given by the company to employees for the results of work performed by employees to achieve the desired goals. Compensation by Rivai and Sagala (2011: 741) consists of two kinds, namely financial compensation and non-financial compensation.

Financial compensation is the reward given by the company to employees in the form of money. Non-financial compensation is a reward given to employees, not in the form of money, such as the relationship between superiors with subordinates, subordinates with subordinates, the promotion, work environment, and promotion.

According to Wirawan (2009: 27) Compensation is one aspect that is significant for employees because the amount of compensation reflects the size of the value of their work among the employees themselves, family, and society. Meanwhile, according to Martoyo (2009: 126). Effective and efficient compensation can directly establish organizational stability and indirectly contribute to boosting the country's overall economic stability and growth. Based on the description, the provision of compensation either directly or indirectly will impact on job satisfaction and employee performance.

H1: Compensation has a positive and significant effect on job satisfaction
H2: Compensation has a positive and significant effect on employee performance

2.2 Job Satisfaction

Job satisfaction is a description of the attitude of an employee whether happy or unhappy with the rewards earned from work related to himself, with his boss, fellow employees, and the work environment. According Mangkunegara (2013: 117) suggests that job satisfaction is a feeling that supports or does not support the self employee associated with his job or with his condition. According to Handoko (2014: 193) job satisfaction is a pleasant or unpleasant emotional state in which employees see their work. Based on the description, it can be said that a person's job satisfaction is closely related to the resulting performance, where when a person is satisfied with his work it will have an impact on the resulting performance.

H3: Job satisfaction has a positive effect on employee performance

2.3 Employee Performance

Performance is a function of motivation and ability to complete tasks and work. A person deserves a degree of willingness and a certain level of ability. One's willingness and skills are not effective enough to do something without a clear understanding of what to do and how to do it.

Employee performance is a very important thing in the company's efforts to achieve its goals. According to Mangkunegara (2009: 67) Performance of human resources is a term derived from the word Job Performance or Actual Performance (performance or achievement actually achieved someone). Haruko (2011: 50) defines the performance is the element of recording the work of human resources from time to time so it can be known how far the work of human resources and improvements what should be done so that the future can be better. To achieve company goals and objectives, organizations are organized into smaller work units, with a clear division of labor, work systems, and working mechanisms.

Based on the above opinion can be concluded that the performance is a capability possessed by someone to complete the task that has been given from superiors to be completed with the ability, willingness, and skills.

III. Research Methods
3.1 Population and sample

The type of research is observational (non-experimental) with cross sectional design. The target population in this study is from several steel fabricator companies in East Java, which is an individual

investment and production capacity of its production of 1500-2500 tons/month. This is to help researchers get good criteria on the quality of performance of employees.

Hair et al. In Ferdinand (2002: 48) states that the sample size depends on the number of indicators used in all latent variables. It is recommended that the minimum sample size is 5-10 observations for each parameter estimate.

Based on the above opinion, the minimum sample size in this study is n = 10 x number of indicators, where n is the minimum sample number. Indicators used in this study as many as 12 indicators, so that obtained a minimum sample size of 120 respondents.

3.2 Sample Characteristics

Respondents who became the source of information to obtain primary data were taken from the operator level employees in the production department, which consisted of fitter, welder, and helper. Where the total population of 300 employees.

The number of samples using the Slovin formula, which assumed that the sample to be studied or desirable using an alpha percentage of 5% so Slovin formula as follows:

$$n = \frac{N}{1 + N(e^2)}$$

$$n = \frac{300}{1+300(0,05^2)} = 171.428$$

$$n = 170 \ respondent$$

The technique of determining the sample based on purposive random sampling method, which is from 170 samples of employees will be distributed on the company of different steel fabricator with the aim that the population of each research object is the employee level steel fabricator company in East Java can be represented

3.3 Operational Definition and Measurement Scale

To answer the problem formulation and to test the proposed hypothesis, then the data obtained will then be processed in accordance with the needs of the analysis. For the purposes of discussion, data is processed and presented based on descriptive statistical analysis, while for the purpose of hypothesis testing used inferential statistical approach. To be able to answer the research question and to evaluate the model of the analysis technique that will be used is Structural Equation Modeling (SEM) modeling technique. The use of SEM allows researchers to examine the relationship between complex variables to obtain a comprehensive picture of the overall model. SEM can test simultaneously.

Basically, humans work with the purpose of his life. An employee will work and show loyalty to the company. Therefore the company rewards employee performance by compensating. One way management to improve job performance by motivating and improving the performance of employees through compensation. According to Husein Umar (2007: 16), indicator compensation is Salary, Incentives, Bonus, and Insurance.

Each employee individually has a different job satisfaction, even if it is in the same type of work, it depends on the level of needs and system that applies to him/her. Husain Umar (2008: 213), states that Job Satisfaction is the feeling and judgment of a person for his work, especially regarding his working conditions, in relation to the expectation of whether his work is able to meet his expectations, needs, and desires. Hasibuan (2008: 202), states that Job satisfaction is an emotional attitude that is fun and loves her job. This attitude is reflected by the morale of work, discipline, and work performance. Based on these definitions, the indicator of job satisfaction is to love his job, work morale, discipline and work performance.

Performance is a result of work produced by an employee interpreted to achieve the expected goals. Gilbert (1977), cited Soekidjo Notoatmodjo (2009: 124) suggests that Performance is something that can be done by someone in accordance with the duties and functions. Based on this understanding, it can be argued

that performance is a result of work achieved by an employee in accordance with the standards and criteria that have been established within a certain time. Anwar Prabu Mangkunegara (2009: 75) suggests that performance indicators, namely Quality, Quantity, Implementation of duties and Responsibilities.

For the items of the question in this research use Likert scale instrument with five points scale (1- Very unsuitable; 2- Inappropriate; 3-Suitable Suit; 4- Suit and 5- Very suitable).

IV. Test Measurement Model

Measurement test model is a part of SEM models consisting of latent variables (constructs) and some manifest variables (indicators) that describe the latent variables.

Based on calculations Structural Equation Modeling (SEM) using AMOS (Analysis of Moment Structure) version 22.0, All Loading Factor to be significant at alpha 5%, this value is said to be invalid because its loading value above 0.60 and p value <0, 05 (Ghozali, 2014: 138)

Table 4.1 Testing Measurement Model

Indicator	Direction	Construct	Estimate	P Value
X1	<---	Compensation	0.623	0.000
X2	<---	Compensation	0.821	0.000
X3	<---	Compensation	0.657	0.000
X4	<---	Compensation	0.736	0.000
Y4	<---	Satisfaction	0.751	0.000
Y3	<---	Satisfaction	0.739	0.000
Y2	<---	Satisfaction	0.671	0.000
Y1	<---	Satisfaction	0.734	0.000
Z1	<---	Performance	0.713	0.000
Z2	<---	Performance	0.811	0.000
Z3	<---	Performance	0.825	0.000
Z4	<---	Performance	0.832	0.000

Source: Output Amos Ver 22.0

V. Results Analysis

5.1 Model of structural equations

After testing using SEM models, the result that the data used to qualify, then the analysis can be continued with the model fit test and significance tests of causality. The results of model conformance testing are presented in the following table:

Table 5.1 Conformity Testing Model

No	Goodness of fit	Cut – of – value	Results	Description
1	Chi Square	Expected small	48.417	Fit
2	Significance Probability	$\geq 0,05$	0,577	Fit
3	RMSEA	$\leq 0,08$	0,000	Fit
4	GFI	$\geq 0,90$	0,954	Fit
5	AGFI	$\geq 0,90$	0,929	Fit

6	CMIN/DF	≤ 2,00	51,00	Fit
7	TLI	≥ 0,90	1,005	Fit
8	CFI	≥ 0,95	1,000	Fit

Source: Output Amos Ver 22.0

Based on the calculation results obtained from Table 5.1, indicating that the model is appropriate, it can be shown on the parameter values that meet the criteria of Model Conformity Test.

5.2 Test Results

The conceptual model shown in Figure 5.1 shows that first, compensation has a significant effect on the positive direction on job satisfaction. This result is seen from the coefficient of positive marked 0.331 with CR value of 2.919 and obtained the probability significance (p) of 0.004 is smaller than the significance level α is set at 0.05. Thus the compensation variable has a significant effect on job satisfaction. These results provide support for the hypothesis of compensation variables have a significant effect on job satisfaction.

Second, the compensation variable has a significant effect on the positive direction on employee performance. This result is seen from coefficients with positive marks of 0.207 with a CR value of 2.020 and obtained probability significance (p) of 0.043 is smaller than the significance level α is set at 0.05. Thus, the compensation variable significantly affects employee performance. These results do not provide support for the hypothesis of compensation variables have a significant effect on employee performance.

Third, job satisfaction has a significant effect on the positive direction on employee performance. This can be seen from the coefficient of positive marked 0.191 with CR value of 2.103 and obtained probability significance (p) of 0.036 is smaller than the level of significance α is set at 0.05. Thus, job satisfaction variables significantly influence employee performance. These results provide support for the hypothesis of job satisfaction variables significantly affect employee performance.
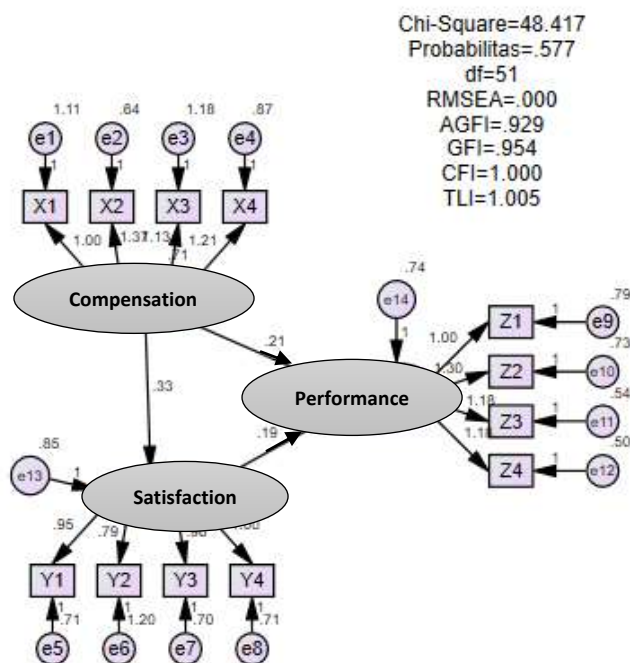

Figure 5.1. Conceptual Model
Source: Output Amos Ver 22.0

5.3 Influence between paths

The strength of correlation between constructs, either direct or indirect correlation, or total correlation, can be analyzed by coefficients of all lines with one end arrow. The direct correlation of the observation variable is the path coefficient value of each observed variable. Indirect correlation (standardized indirect effect) can strengthen or weaken the value of direct correlation (standardized direct effect) derived from exogenous variables in this study. The total correlation is the sum of the relationships found in one observation variable (Ferdinand, 2000: 139). Direct effect, indirect effect, and the total effect of each independent variable on the dependent variable can be explained as follows:

Table 5.2 The value of direct, indirect and total influence

Corelation Between Variables	Direct	Indirect Satisfaction	Total
Satisfaction ← Compensation	0.331	0.000	0.331
Performance ← Satisfaction	0.191	0.000	0.191
Performance ← Compensation	0.207	0.040	0.247

Source: Output Amos Ver 22.0

The existence of indirect correlation (indirect effect) between compensation on performance through job satisfaction that has an indirect effect of 0.207 x 0.191 = 0.040. And a total effect of 0.247. Furthermore the value of direct effect (direct effect) from compensation to the performance of 0.207. The value indicates that if the indirect effect (0.247) is greater than the direct effect (0.207). This shows that the compensation variable is not dominant to form the performance but must pass the employee satisfaction first perceived by the employee.

VI. Discussion

The main purpose of this study is to examine the relationship between compensation, job satisfaction, and employee performance. Test results using SEM model show the following three findings. First, this study reinforces that compensation has a significant effect on job satisfaction. These findings support his theory Sutrisno (2014: 74) which states that job satisfaction is an attitude of employees to work related to work situations, employee cooperation, rewards received in the work, and matters involving physical and psychological factors. The results of this study also support Bintoro (2013) study which states that compensation has a significant effect on employee job satisfaction.

The second finding of this study states that compensation has a significant effect on performance. This research supports the theory of Mangkunegara (2013: 84) which states that the compensation given to employees is very influential on the level of job satisfaction and work motivation and the work. This study also supports research from Amrullah (2012) which proves that financial compensation has a significant effect on performance.

The third finding of this research states that job satisfaction has a significant effect on performance. The result of the analysis shows that job satisfaction has a significant effect on employee performance. This research supports the theory of Mangkunegara (2013: 117) which states that job satisfaction is a feeling that supports or does not support the self-employee associated with his work or with his condition. This research also supported by Artadi research (2015) which proves that employee job satisfaction has a positive effect on employee performance.

VII. Conclusion

Based on the results of research that has been done on the steel fabricator company in East Java about the effect of compensation on job satisfaction and employee performance can be drawn some conclusions as follows:

1. Compensation has a significant effect on the positive direction on job satisfaction. This is due to compensation is everything that employees receive as a reward for their work in the organization.

Satisfaction with compensation is determined by compensation fairness, compensation rate so that in order to provide job satisfaction, the process of determining compensation needs to pay attention to the requirements of justice and feasibility one of them is through job evaluation.

2. Compensation has a significant effect on the positive direction on employee performance. Just like the previous discussion, compensation can be said as a reward given to employees within a company. Employee performance is strongly influenced by the compensation provided. The better or the greater the compensation given, the greater the performance of the employee, the worse the smaller the compensation will be, the lower the performance of the employee, which in the process of determining the compensation needs to pay attention to the factors of fairness and feasibility.

3. Job satisfaction has a significant effect on the positive direction on employee performance. This shows that organizations that have more satisfied employees tend to be more effective than organizations that have employees who are less satisfied or in other words, Employees who feel satisfied then the performance will increase, while employees who are not satisfied then the performance will decrease.

4. The compensation variable is not dominant to form the performance but must pass the employee's job satisfaction first, therefore the company needs to really pay attention to the satisfaction felt by the employees because instinctively human also need something that does not appear physically.

VIII. Suggestions

Based on the results of research conducted can provide some suggestions as follows:

1. In order to provide job satisfaction that will impact on performance improvement, the process of determining compensation needs to pay attention to the requirements of justice and feasibility. Internal justice can be done through job evaluation, while external justice is done by wage/salary surveys.

2. Needs further research about the variables that affect the performance, for example, the additional burden due to work environments such as physical factors: lighting and temperature and physiological factors that are leadership style to performance.

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