

The Impact of Compensation, Career Development and Employee Engagement towards Employee Performance

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Abstract: This study aims to examine, analyze and explain the impacts of compensation, career development and employee engagement to employee's performance partially and simultaneously (Case Study at PT Bank XYZ). The research design used is quantitative descriptive research causality involving 30 respondents. Sources of data are from primary and secondary data, primary data obtained from questionnaires distribution and secondary data obtained from journals and books. Data analysis used model test using smart application PLS 3 that consists of test outer model and inner model. The results showed that compensation, career development and employee engagement partially have a positive impact on employee performance, while they have a positive and significant impact on employee performance simultaneously. The independent variable has the greatest impact is the employee engagement.

Keywords: compensation, career development, employee engagement, employee performance.

INTRODUCTION

The Assessment of a company can be monitored from the performance of the company consisting of the performance of human resources of the company. Performance is a mental attitude that always try and have the view that today is better than yesterday and tomorrow is better than today [1].

Others argue that employee performance is efficient and effective, the accuracy and appropriateness of the use of methods or ways of work compared to the tools and time available in order to achieve the goal. In this case, the higher or better the performance of employees of a company, so the goal of the organization will be more easily achieved [2]. It can be concluded that the performance is an activity taken by employees or individuals to achieve a goal by keeping attention to prevailed provisions.

This is also the concern of PT Bank XYZ, as a company engaged in the financial services sector; It surely requires a reliable and competent human

resources in growing trust, secure, and certainty to customers. By good quality of human resources, the company will be able to provide the best service to the customers. Effective competency management for the human resources will provide competitive advantages in increasing profit of the company.

To get a preliminary overview of the factors affecting employee performance, the pre-research was conducted by the researchers by conducting a survey to 20 (twenty) employees of PT Bank XYZ who were the object of this research. Here are some variables that affect employee performance based on pre-research results 2017.

Table-1: The Factors Affecting Employee Performance

| No | Indicators | Quantity (Persons) | Percentage (%) |
|-------|-----------------------|--------------------|----------------|
| 1 | Compensation | 7 | 35 |
| 2 | Career Development | 5 | 25 |
| 3 | Attachment | 3 | 15 |
| 4 | Work Discipline | 2 | 10 |
| 5 | Working Environment | 1 | 5 |
| 6 | Leadership Style | 1 | 5 |
| 7 | Chance of Achievement | 1 | 5 |
| Total | | 20 | 20 |

Source: Pre-Research Results (2017)

In the previous research there were two opinions stated that the compensation, career development and employee engagement variables had an impact on employee performance and there was no impact on employee performance. According to Victor Octavian Muller [3], there was a significant relationship between the basic salary, fees paid in shares and additional remuneration to the performance of the company in the current year and the year after. In the other hand, the research conducted by Priyambudhi [5] and Supriyanto [4] states that remuneration has no impact on employee performance. From some researches above there is still gap research, hence the writer wants to do research among a variable of compensation, career development, employee engagement and employee performance entitled: The Impact of Compensation, Career Development and Employee Engagement towards Employee Performance (Case Study at PT Bank XYZ).

Based on the description on the background of the problem and the formulation of the problem can be described as follows:

- Does compensation affect employee performance?
- Does career development affect employee performance?
- Does employee engagement affect employee performance?
- Is compensation, career development and employee engagement simultaneously affecting employee performance?

THEORY OF THE STUDY

The Theory

Compensation

Compensation is a transition segment between an employee and employer based on the employee's employment contract. Compensation equals half of the company's cash flow, so compensation is the most important part of cash flow. Compensation is the main thing to attract and motivate employees to improve their performance [7] in Hameed, Ramzan, *et al.* [6]. According to the Compensation Association (ACA), compensation is the cash and non-cash remuneration provided by the employer for services already provided. Designing a compensation program is very important in personnel management as it straightly affects job satisfaction and employee performance [8,9].

In almost every aspect of functional organization, compensation can set employee's behavior and organizational effectiveness. The design and implementation of the compensation system not only affects employee motivation, but it can also be functioned to improve safety, quality, creativity, innovation, and other outcomes in the workplace [10]. The compensation process is very important and becomes a source of debate in most organizations. It relates to the respect of a person based on his value in

the organization. The compensation process includes the strategies, plans and philosophical processes used by the organization to develop and maintain a reward system [11]. Compensation is used to confirm the financial and nonfinancial benefits earned by employees for the talent and business expended in the production of goods and services for the organization [10].

Career Development

Career development is a tool that is able to accommodate the information needs of career opportunities for organizational members that can help employees to get clear career direction, define their career goals, find out the requirements of their target position, and motivate to do as needed. Attempting to achieve career goals can provide satisfaction for employees [12].

The dimensions used in measuring career development in this study refer to Simamora & Henry [13] are individual career management and institutional career management. So, it can be concluded that the dimensions used to measure career development in this study lead to the above opinions, namely:

- Individual career management consists of indicators
 - Interest to be promoted,
 - Career satisfaction,
 - Cooperating to the superior
 - High dedication and loyalty
 - Good work performance.
- Institutional career care consisting of indicators
 - Career equation,
 - The Care of superiors,
 - Promotional information,
 - Procedure of appointment,
 - Division of tasks by ability and authority
 - The provision of opportunities for a position.

Employee Engagement

Employee engagement is an emotional attachment to work, and organization, motivated, and able to give their best performance to get benefits to organizations, and individuals [14]. The engaged organizations have the power, and the authentic value, clear evidence of trust, and fairness based on mutual respect, both have a promise, and commitment between employer and employee [14]. Engagement is defined as a positive, meaningful, and motivational attitude characterized by vigor, dedication, and absorption [15, 16]. Vigor is characterized by high energy levels, resilience (ability to adapt), desire to strive, and not give up in confronting the challenge. Dedication is coded by feeling worth, enthusiastic, inspiring, valuable, and challenging. Absorption is symbolized by full concentration of a task [17, 16].

Employee Performance Theory

Employee performance (work performance) is the result of work qualitatively and quantitatively achieved by an employee in his performing duties according to the responsibility given to him [18]. Performance is the result of work and work behavior that has been achieved in completing tasks and responsibilities given in a certain period [19]. Performance can be defined the result of work achieved by employees or workers qualitatively and quantitatively leading to their duties and responsibilities [20]. According to Barry Cushway [21] "performance is judging how a person has worked against a predetermined target". According to Veithzal Rivai [22] performance is "a real behavior displayed by every person as work achievement generated by employees in accordance with its role in the company". According Dharma [19] mentions there are three criteria in measuring employee performance, namely:

- Quality of work is the quality of work of employees within a certain time in accordance with work standards established by the organization. The indicators are: thoroughness, accuracy, tidiness, hygiene and health.
- Quantity of work is the number of jobs conducted by employees in a certain time, and in accordance with the number of jobs targeted, and or exceeds the targeted amount.
- Timeliness is the accuracy of employees in completing certain jobs in accordance with predetermined time standards. Indicators: punctuality, faster and or later.

Hypothesis

In this study, there are three independent variables: compensation (X1), career development (X2), employee engagement (X3), and one dependent variable is employee performance (Y). The writer uses multiple linear regression analysis to find out, analyze, and explain the impact of correlation between independent variables to dependent variable, either partially or simultaneously as illustrated on the framework above.

Based on the theoretical basis, the results of previous research and the problems stated, so it is

displayed framework presented in the research model as follows:

H1: There is an impact between compensation towards employee performance.

H2: There is an impact between career developments towards employee performance.

H3: There is an impact between employee engagements towards work performance

RESEARCH METHODS

Types of Research

In this study, the writer uses a quantitative approach that is a method to test certain theories by investigating the relationship among variables that will be discussed. The output of the research is in the form of figures and analyzed based on statistical procedures. The type of research the writer use is survey research trying to describe the quantitative description or numerical description of trends, attitudes, or opinions of a particular population by examining a sample of the population John [6].

Research Variables

The variable is an attribute or the nature or value of a person, object, or activity that has certain variations set out in the study to be studied and got its conclusions [23]. Based on the subject matter and the proposed hypothesis, the variables in this analysis can be identified as follows:

- Independent Variable.
- The independent variable is the variable affecting the dependent variable. In this study, the independent variables are compensation (X1), career development (X2) and employee engagement (X3).
- Dependent Variable
- The dependent variable is the variable impacted by the independent variable. In this study, the dependent variable is company performance (Y).

The operational definition is to explain the concept of a variable that can be measured by its measurement; here are the operational definitions of the variables in this study.

Table-2: Definition of variable operation

| Variables | Dimension | Indicators | Scale | Measurement |
|-------------------------|---------------------------------|---|---------|---------------|
| Compensation [22] | straight financial compensation | a. Pay structure b. Gift/reward c. Traveling allowance d. Overtime allowance | Ordinal | Questionnaire |
| | indirect financial compensation | a. Insurance b. Insurance service c. Leave allowance d. Recreational allowance e. Sports facilities f. Benefits of retirement | Ordinal | Questionnaire |
| | Non-financial compensation | a. Promotional opportunities b. Training and development c. Recognition and appreciation d. Supporting working facilities | Ordinal | Questionnaire |
| Career development [13] | Individual career development | a. Interest to be promoted b. Career satisfaction c. Be able to cooperate to superior d. High dedication and loyalty e. Good work achievement | Ordinal | Questionnaire |
| | Institutional career management | a. Career equality b. Cares of superiors c. Promotional information d. Procedure for appointment e. Distribution of tasks by ability and authority f. Position chances | Ordinal | Questionnaire |

Types and Data Sources

This study uses data obtained through respondents, where respondents will respond in written form as a response to a given statement. The types of data used in this study are:

- Primary data is the data obtained and collected directly from the field such as individual or group subject opinion and test results. In this study, the data obtained from correspondents are data on compensation (X1), career development (X2), employee engagement (X3) and corporate performance (Y).
- Secondary data is the data obtained indirectly through mediators. In this study, secondary data only supports pre data collection as research output by literature research.

Data Collection Techniques

There are two things that can affect the quality of results. They are the quality of research instruments and the quality of data collection. The quality of research instruments relates to the validity, reliability and quality of data collection suitability of data collection. Data collection techniques can be collected by interviews, questionnaires, observations and

combined all. Data collection techniques used in this study are:

Questionnaire

The questionnaire is a list of questions answered or completed by respondents or parents / children who want to be investigated [2]. The study used a closed questionnaire that the question and answer options have been prepared by researchers and respondents just choose the answers. This questionnaire is used to retrieve data on compensation variables, career development, employee engagement and company performance. The weighting of the ordinal scale method uses five scales, that are strongly agreed (scale 5), agree (scale 4), agree enough (scale 3), disagree (scale 2) and strongly disagree (scale 1) for each respondent's answer of the variables investigated. In this questionnaire, there will be a draft of questions relating to the research problem and each question will begin based on the weight already set up.

Observation

Observation is a technique of data collection that the researcher observes straightly by recording indications studied

Table-2: Definition of variable operation (continue)

| Variables | Dimension | Indicators | Scale | Measurement |
|---|------------------|--|---------|---------------|
| Employee Engagement Schaufeli <i>et al.</i> In Murnianita [17] | Vigor | a. Enthusiasm b. Energetic c. Tough d. Durability e. Mentality | Ordinal | Questionnaire |
| | Dedication | a. Challenging b. Inspiration c. Proudness d. Meaningful | Ordinal | Questionnaire |
| | Absorption | a. Focus b. Time flies c. Drifted happily d. Dependence e. Happy | Ordinal | Questionnaire |
| Performance [24] | Quality of work | a. Skills b. Accuracy c. Cooperation d. Responsible e. Creative idea f. The idea of improvement g. Minimize errors h. Work procedures | Ordinal | Questionnaire |
| | Quantity of work | a. Work output b. Time spent c. Work target d. Completed the task without any hesitation | Ordinal | Questionnaire |
| | Punctuality | e. Utilization of working time .1 Effective and efficient .2 Punctual | Ordinal | Questionnaire |

Literature review

Library study is a method of retrieving data 1 conducted by reading books, literatures, journals, other references and previous researches related to this research.

Population and Sample

Population is generalization area, object/subject having certain quality and characteristic determined by researcher to be studied and got conclusion [25]. The population of this research is employees of PT Bank XYZ, especially for staff and junior staff level, 30 employees. In this research, the sampling technique using saturated sampling technique, because the population used is relatively small. According Sugiyono [25] saturated sampling technique is a technique of determining the sample when all members of the population are used as a sample.

Data Analysis Method

After selecting the sample, making a modeling, determining the variables used in the research, and making the hypothesis, the next step is to perform data processing by using Partial Least Square Version 3. Evaluation of PLS model is done by evaluating outer model and inner model. Outer model is a measurement model to assess the validity and reliability of the model. By the algorithm iteration process, the parameters of the measurement model (convergent validity, discriminant validity, composite reliability and cronbach's alpha) are obtained, including the R² value as the parameter of precision of prediction models. Inner model is a structural model to predict the causality relationship among latent variables. By the bootstrapping process, t-statistic tests were obtained to predict a causality relationship.

RESULTS AND DISCUSSION

Table-3: Results of Path Coefficients

| Exogenous Variable | Original Sample (O) | Standard deviation (STDEV) | T-Statistics (/O/STDEV/) | P values |
|--|---------------------|----------------------------|--------------------------|----------|
| Compensation → Employee Performance | 0.117 | 0.172 | 0.652 | 0.515 |
| Career Development → Employee Performance | 0.224 | 0.249 | 1.335 | 0.183 |
| Employee Engagement → Employee Performance | 0.512 | 0.480 | 2.950 | 0.003 |

Source: Data processing using Smart PLS 3.0 (2017)

Based on the above table, the following is an explanation of the results of hypothesis testing research

H.1. The Impact of Compensation to Employee Performance

On the table above, It is noted that the original value of sample compensation to employee performance is 0.117 meaning that the compensation has a positive relationship to employee performance. The T-Statistic value of compensation to employee performance is 0.652 meaning that the relationship between compensation to Employee Performance attained 0.652, which means the impact between compensation to employee performance is not significant because T-Statistic is <1.96. Therefore, it can be concluded that the first hypothesis is proved meaning that there is a positive impact but It is not significant impact between compensation to employee performance at PT Bank XYZ.

H.2. Impact of Career Development to Employee Performance

On the table above, It is noted that the original value of sample career development to employee performance is 0.224 meaning that the motivation has a positive relationship to employee performance. The T-Statistic value of career development to employee performance is 1.335 meaning that the relationship between career development to Employee Performance attained 1.355, which means the impact between career development to employee performance is not significant because T-Statistic is <1.96. Therefore, it can be concluded that the second hypothesis is proved meaning that there is a positive impact but It is not significant impact between career development to employee performance at PT Bank XYZ.

H.3. Impact of Employee Engagement to Employee Performance

On the table above, It is noted that the original value of sample Employee Engagement to employee performance is 0.512 meaning that the Employee Engagement has a positive relationship to employee performance. The T-Statistic value of Employee Engagement to employee performance is 2.950 meaning

that the relationship between Employee Engagement to Employee Performance attained 1.355, which means the impact between Employee Engagement to employee performance is not significant because T-Statistic is <1.96. Therefore, it can be concluded that the third hypothesis is proved meaning that there is a positive impact but It is not significant impact between Employee Engagement to employee performance at PT Bank XYZ.

H.4. Impact of Compensation, Career Development and Employee Engagement Simultaneously On Employee Performance

On the table above, It is noted that the value of R-Square of the analysis results obtained value of 0.512 to the dependent variable of employee performance. Therefore, it can be concluded that employee performance can be explained by compensation, career development and employee engagement that attained 51,2%, while the rest is impacted by other variables are not explained in this research. T-statistic value of compensation, career development and employee engagement to employee performance is 2,950 meaning that the relationship between the work environments to employee performance has a significance level attaining 2.950, which means also the impact that occurs among compensation, motivation and work environment to employee performance is significant due to the magnitude of T-statistics > 1.96. Therefore it can be concluded that the fourth hypothesis proved meaning there is a positive and significant impact simultaneously among compensation, motivation and work environment to employee performance at PT Bank XYZ.

CLOSING

Conclusions

Compensation has a positive impact to employee performance, based on the correlation of the indirectly financial compensation dimension that has a major impact to performance. Career development positively affects employee performance, individual career management dimensions that have a strong impact to performance. Employee engagement also has a positive and significant impact to employee

performance. Employee engagement itself has the strongest impact to performance. While Compensation, Career Development and Employee Engagement have a positive impact to Employee Performance simultaneously.

Suggestions

- Management of PT Bank XYZ should always conduct salary survey to know their compensation position at market at least for similar company. So it can be more competitive in attracting new employees and retaining the best employees. In addition, management should be creative in creating the types of compensation that can improve employee prosperity so it can improve employee performance.
- Management is expected to give more attention to career development of its employees such as in clarity of appointment procedures, career equality of each employee and the provision of equal training to every employee. In addition, the leadership / supervisor's cares towards subordinates should be further improved such as providing direction and monitoring the results of employee work. Leadership awareness can also be applied like morning coffee meaning morning activity that discusses the evaluation of work and the next work plan is packaged lightly and casually.
- To gain employee engagement, managements are expected to create a work environment making employees comfortable and can devote energy and mind for the progress of the company in each work unit such as creating joint sports activities and other activities involving all employees, so that employees feel noticed by management.
- Further research on the factors that have impact on employee's performance in PT Bank XYZ, outside of the variables currently being studied, such as organizational culture variable, work environment, leadership and work load, and expanding and multiplying the respondents. It is expected that the results of further research can provide positive input to the company to be able to make improvements so as to improve employee performance of PT Bank XYZ.

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