THE INFLUENCE OF INCENTIVES AND COMPENSATION ON THE EMPLOYEE PERFORMANCE OF THE EDUCATION AGENCY OF NAGAN RAYA DISTRICT: THE ROLE OF WORK MOTIVATION AS A MEDIATING VARIABLE

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ABSTRACT

The aim of the study was to analyze the effect of incentives and compensation on employee performance of the education agency of Nagan Raya District. Work motivation is used as a mediating variable in the functional relationship between these variables. The research was conducted on all employees of the agency of 50 persons. Data collection used a questionnaire and then the data was analyzed using statistical tools for structural equation modeling (SEM) which was then operationalized through the Smart-PLS software. The research study pointed out that incentives and compensation have a positive and significant effect on employee performance. Likewise, work motivation also significantly improves employee performance. The existence of work motivation as an intermediary variable mediates the effect of incentives and compensation on employee performance. The mediation effect is full mediation.

Keywords: Employee performance, Incentives, Compensation and Structural Equation Modeling

1. Introduction

The Education Agency has an important role in efforts to improve the quality of education in the regions. The ability of the education office to carry out its duties is largely determined by the human resources working within the agency. Employees are the main resource for every government agency and have an important role in supporting the operational activities of the agency where they work. Improving the performance of government agencies requires
employees who are well-performing and able to work professionally (Chien & Thanh, 2022), and have high work motivation (Park & Choi, 2020). Because of this, efforts to improve employee performance and motivation are very important to do, including within the education agency of the Nagan Raya district.

Theoretically and empirically, work motivation and employee performance can be influenced by a number of factors including incentives and compensation. Incentives are remuneration paid to certain workers whose achievements are above standard performance (Hasibuan, 2016: 133). Incentives are internal rewards given to employees when they are able to complete tasks successfully, and these rewards are mostly psychological in nature and are based on one's efforts and abilities (Manzoor et al., 2021). Furthermore, compensation is all income in the form of money or goods, directly or indirectly received by employees in return for remuneration provided to the organization where they work.

The influence of compensation and incentives on employee motivation has been proven by a number of researchers. Payment for individual performance can have an impact on work motivation (Cabanas et al., 2020). Even the payments received by employees can not only encourage work motivation but also affect their performance in carrying out tasks which in turn have a positive impact on the productivity and performance of the organization where they work (Przychodzen & Gómez-Bezares, 2021). Compensation in the form of incentives can increase work motivation and employee performance, and the presence of work motivation can mediate the effect of incentives on employee performance (Manzoor et al., 2021).

The influence of incentives and compensation on performance is not only stated in the theoretical literature but has also been proven in a number of the empirical literature. Empirical studies conducted by Cainarca et al. (2019) discovered that incentives have a positive and significant effect on individual performance and organizational performance. The results of research conducted by Robinson & Farkas (2021) also prove that financial incentives can increase employees' desire to work better and in turn have an impact on improving their performance. So that the reward strategy including compensation and incentives that apply to government agencies is expected to have an impact on employee performance (Kang & Lee, 2021).

As previously explained, employee motivation and performance can be influenced by incentives and compensation. Both incentives and compensation are basically rewards received by employees in relation to their status and contribution to supporting the operational activities of the agency where they work. The study of the relationship between work motivation and employee performance with perceptions of the incentives and compensation policies that they have experienced so far is interesting to analyze. In contrast to a number of researchers as mentioned above, research does not only analyze the effect of incentives and compensation
directly on employee motivation and performance, but also positions work motivation as a mediating variable between employee performance on the one hand, and incentives and compensation on the other hand.

2. Literature review

2.1 Effect of incentives and compensation on work motivation

Incentives are related to the intrinsic rewards given by an organization to its members. Intrinsic rewards are internal rewards that employees achieve from completing their tasks or projects successfully. These rewards are mostly psychological in nature and are based on one's effort and ability. Intrinsic rewards evoke positive emotional reactions and work to motivate employees to continuously improve and make lasting behavior changes when needed (Ryan & Deci, 2020). This intrinsic reward then motivates employees to continue to complete tasks well. Incentives or intrinsic rewards received by employees are important elements of job satisfaction, work motivation, and employee retention (Tymon Jr. et al., 2010).

The results of Stumpf et al. (2013) provide empirical evidence that intrinsic rewards can increase employee job satisfaction which in turn increases their work motivation. In fact, previously, research by Ajila & Abiola (2004) also proved that intrinsic rewards can directly improve worker performance. Other empirical studies such as those conducted by Berdud et al. (2016) also concluded that incentives and compensation can increase employee motivation.

2.2 Effect of incentives and compensation on employee performance

The influence of incentives and compensation on performance is not only stated in the theoretical literature but has also been proven in a number of the empirical literature. Research Cainarca et al. (2019) in their research proved that incentives have a positive and significant effect on individual performance and organizational performance. Furthermore, Candradewi & Dewi (2019) also proves that compensation can significantly improve employee performance. They also found that the effect of compensation on employee performance occurs through work motivation as a mediating variable. Almost the same as the findings of the two studies, the results of the study by Robinson & Farkas (2021) found that financial incentives can increase employees’ desire to work better and in turn have an impact on improving their performance. Previously, a study by Arbaugh et al. (2004) provides empirical evidence that compensation incentives can significantly improve organizational performance. Lastly, research by Manzoor et al. (2021) also found that compensation in the form of incentives can increase employee motivation and performance. They also prove that work motivation mediates the influence of incentives on employee performance.
2.3 Effect of work motivation on employee performance

In achieving success, leaders need to pay attention to the work productivity of the workforce, in terms of compensation. In order for the work performance of each employee to increase, a driver or factor is needed that can make the employee's work performance or performance in accordance with what is expected by the company. According to Mangkuprawira (2013: 117), "the factors that affect employee performance are relatively complex, they can be intrinsic factors (level of education, knowledge, skills, motivation, health, and experience) and can be extrinsic factors (compensation, work climate, leadership, work facilities, and social relations).

Compensation is very important for employees as individuals because wages are a measure of their value or work among the employees themselves, their families, and society. The absolute income level of employees will determine the scale of their life, and their relative income shows their status, dignity, and price (Handoko, 2016: 325). Therefore, leaders need to pay attention to the compensation given to employees, so that their performance can increase according to their abilities in achieving the goals and desires of the company and leaders.

2.4. The effect of incentives and compensation on employee performance through work motivation

The effect of incentives and compensation on employee performance can occur directly (direct effect) or indirectly (indirect effect) through a number of other variables. Another variable intended in this study is work motivation. This is based on the idea that motivation can be a connecting variable between incentives and compensation and performance. Providing incentives and compensation to employees can have an impact on work motivation. Incentives and financial compensation are basically a form of appreciation received by employees. This award can cause positive emotional reactions which then motivate employees to work better (Ryan & Deci, 2020). When the incentives received by employees are based on their success in carrying out work in accordance with established performance standards, these incentives and compensation can generate high work motivation (Netz & Raviv, 2004). Furthermore, an increase in work motivation has an impact on the work results achieved by employees. The existence of a mediating role of work motivation on employee performance is reinforced by the results of Güngör's research study (2011) and the results of Candradewi & Dewi's (2019) research which also strengthens empirical evidence that motivation mediates the effect of compensation on employee performance.

3. Data and methodology

This research was conducted at the Education Agency of Nagan Raya District. The object of research relates to the relationship between employee performance and work motivation,
incentives, and compensation. In this case, work motivation is placed as an intermediary variable (mediating variable) between employee performance with incentives and compensation. The research was conducted on all employees of the agency amounting to 50 persons. Data collection uses a questionnaire and then the data analysis model used is structural equation modeling which is operationalized through Smart-PLS.

4. Result and Discussion

This study places work motivation as a moderating variable between employee performance with incentives and compensation. So that the influence between variables can occur directly or indirectly. Through the use of Smart-PLS as a data processing tool, the estimated coefficient, which in structural equation modeling (SEM) terminology is often also called the path coefficient, is obtained through a bootstrapping process whose results are as shown in Figure 1, and the estimated coefficient between variables such as in Table 1.

**Figure 1. The result of Smart-PLS**
Table 1. The path coefficient of research variables

<table>
<thead>
<tr>
<th></th>
<th>Estimated Coefficient</th>
<th>t-stat</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentives --- &gt;</td>
<td>Employee performance</td>
<td>0.243</td>
<td>1.904</td>
</tr>
<tr>
<td>Incentives --- &gt;</td>
<td>Work motivation</td>
<td>0.289</td>
<td>2.590</td>
</tr>
<tr>
<td>Compensation --- &gt;</td>
<td>Employee performance</td>
<td>0.104</td>
<td>1.006</td>
</tr>
<tr>
<td>Compensation --- &gt;</td>
<td>Work motivation</td>
<td>0.479</td>
<td>3.728</td>
</tr>
<tr>
<td>Work motivation --- &gt;</td>
<td>Employee performance</td>
<td>0.616</td>
<td>3.869</td>
</tr>
</tbody>
</table>

Sources: Primary data (Processed), 2022.

Based on the statistical results in Table 1, it can be seen that the incentive path coefficient on work motivation is 0.289 (p-value <0.05). This means that incentives have a positive and significant effect on work motivation. The better the employee's assessment of the incentives they receive, the higher their work motivation. On the other hand, when the assessment of incentives decreases, this condition results in a decrease in employee motivation. This finding is consistent with the results of Berdud et al. (2016) on employees working in the health sector in Spain that incentives have a significant effect on increasing work motivation.

Compensation also has a positive and significant effect on the work motivation of the employees of the Nagan Raya District Education Office. Statistically, this indication is indicated by the path coefficient of 0.479 (p-value < 0.05). The better the employee's assessment of the compensation they receive in relation to their status as employees of the service, the higher their desire to work better. Conversely, when employees have a bad perception of compensation, this condition has a negative impact on their work motivation. Thus, there is a strong and direct relationship between work motivation and compensation. This finding supports the results of Cabanas et al. (2020) which proves that the financial compensation received by employees for the work they do can significantly increase their work motivation. This finding also strengthens the results of research by Igalens & Roussel (1999) which also concludes that compensation can increase employee motivation to work better.

By placing employee performance as an endogenous variable, statistical results show that incentives have a positive effect on employee performance with an estimated coefficient of 0.243 (p-value < 0.10). However, the effect is only significant at 90% confidence. The better the employee's assessment of the incentives they receive in connection with their existence as employees of the education agency of Nagan Raya District. On the other hand, when the assessment of incentives decreases, this results in a decrease in performance. This finding is in
accordance with the opinion of Ajila & Abiola (2004) explaining that intrinsic incentives or rewards have a positive and significant influence on employee performance in an organization.

In contrast to incentives, compensation has a positive but not significant effect on employee performance. This is indicated by the estimated coefficient of 0.104 (p-value > 0.05). Although employees' assessment of the compensation they receive has a positive impact on their performance in carrying out their duties, the impact is not significant. This is because, in general, the compensation received by employees, such as salaries and allowances, for example, has been determined according to the employee class and the amount is generally applicable to all employees, including those who work at the Nagan Raya district education office. Therefore, their assessment of compensation cannot encourage their desire to work better.

Selanjutnya, estimasi koeisien kompensasi terhadap kinerja karyawan juga tidak signifikan pada tingkat kepercayaan 95% yang ditunjukkan dengan p-value 0,315 > 0,05. Semakin baik penilaian karyawan terhadap kompensasi, maka semakin tinggi kinerjanya dalam melaksanakan tugas yang diberikan. Motivasi kerja berpengaruh positif dan signifikan terhadap kinerja pegawai Dinas Pendidikan Kabupaten Nagan Raya, dengan koeisien jalur sebesar 0,616 (p-value < 0,01). Pada tingkat kepercayaan 99%, peningkatan motivasi kerja mendorong peningkatan kinerja pegawai. Dengan kata lain, semakin tinggi motivasi kerja maka semakin tinggi kinerja pegawai. Sebaliknya, penurunan motivasi kerja berdampak pada penurunan kinerja pegawai. Dengan demikian terdapat hubungan langsung antara motivasi kerja dengan kinerja pegawai.

Increasing employee motivation at work can significantly increase the results of their work in accordance with the tasks that have been given. This finding is in line with the results of a study by Taghipour & Dejban (2013) using a sample of 226 corporate employees in the United States who also found that work motivation can significantly boost employee performance. So that efforts to improve performance can be carried out through policy interventions that are oriented towards increasing the desire and motivation of employees to work. These findings also support the results of Dharma's research (2018) using a sample of Aceh Islamic bank employees which also provides empirical evidence that work motivation has a significant effect on employee performance.

Research findings that prove the effect of work motivation on employee performance also confirm the findings of Kuvaas et al. (2017) which prove that internal motivation is positively correlated with employee performance. This finding is also consistent with the results of a study by Banerjee (2015) on a number of service companies in OECD countries which prove that work motivation can increase employee work productivity.
As explained earlier, this study places work motivation as a mediating variable between employee performance on the one hand, with incentives and compensation on the other. In other words, work motivation is positioned as an intermediate variable in the relationship between variables. Through the use of Smart-PLS as a data processing tool, the structural equation model (SEM)-PLS can directly provide information about the direction and significance of the indirect effect between variables. The direction and significance of the indirect effect of incentives and compensation on employee performance through work motivation is shown in Table 2.

**Table 2. Indirect effect**

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>t-test</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentives --- &gt; Employee’s performance</td>
<td>0.178</td>
<td>2.911</td>
<td>0.004</td>
</tr>
<tr>
<td>Compensation --- &gt; Employee’s performance</td>
<td>0.295</td>
<td>2.845</td>
<td>0.005</td>
</tr>
</tbody>
</table>

Sources: Primary data (Processed), 2022.

The estimation results regarding the effect of incentives on employee performance through work motivation (indirect effect) produce an estimated coefficient of 0.178 with a p-value of 0.004 (<0.05). Thus it can be interpreted that incentives can significantly improve employee performance through work motivation. This is different from the direct effect as explained earlier, that at the 95% confidence level, incentives have no significant effect on employee performance. Thus these findings provide empirical evidence that incentives can significantly improve employee performance, only through their influence on work motivation.

The estimation results regarding the effect of compensation on employee performance through work motivation (indirect effect) produce an estimated coefficient of 0.295 with a p-value of 0.005 (<0.05). Thus it can be interpreted that compensation can also significantly improve employee performance through work motivation. That is, the existence of work motivation as a mediating variable increases the significance of the effect of compensation on employee performance. Conversely, without involving work motivation as a mediating variable, the effect of compensation on employee performance is not significant.

**5. Conclusion**

In general, the employees of the education agency of the Nagan Raya district have relatively good work motivation and performance. Even if there are among them poor work motivation and performance, only a small part of the total employees of the agency. In addition, employees' assessment of the incentives and compensation they receive in general is also included in the
good category. Incentives have a positive and significant effect on work motivation and employee performance. The better the employee's assessment of the incentives and compensation they receive, the higher their willingness to carry out their duties. On the other hand, when incentives and compensation are perceived as poor, this condition can significantly reduce their motivation to work. Furthermore, compensation has a positive and significant effect on work motivation but is not significant on employee performance. The increase in incentives has a real impact on employee motivation in carrying out assigned tasks, but this impact is not significant on the work performance they get. Work motivation not only has a positive and significant effect on employee performance but also strengthens the effect of incentives and compensation on performance. The mediating effect caused by work motivation in the relationship between performance with incentives and compensation is full mediation.

Referring to the conclusions described above, the suggestions and recommendations of this study are that the head of the government institution needs to increase the work motivation of its employees, and improve the policy of providing incentives and compensation for its employees. Giving incentives to an employee should not only consider the size of the employee's ability to work which in certain cases and times can be subjective, but also must pay attention to the values of justice for all employees.

References


