



Impact Of Compensation And Work Discipline On Employee Performance With Work Motivation As Intervening Variable (Case Studies Of LAZIS Muhammadiyah)

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ABSTRACT

The study aims to study the impact of compensation, work discipline, and motivation on employee performance, with motivation as an intervening variable. The study analyzed data from 105 respondents using quantitative approaches and Partial Least Squares Structural Equation Modeling (PLS-SEM). In addition, although compensation has a significant impact on work motivation, work discipline also strongly affects work motivations. Work motivation has been shown to mediate the relationship between compensation and employee performance. These findings suggest that in addition to competitive compensation, improving employee discipline and motivation can be an effective strategy for improving performance. The results of this research can serve as a benchmark for managers to formulate more effective compensation policies and develop human resources.

INTRODUCTION

As an Amil Zakat Institution that plays a central role in the collection and distribution of Zakat, Infaq and Sedekah funds, LAZIS Muhammadiyah faces the challenge of continuously improving its performance over time. (www.lazismu.org). The Human Resources Division of Lazis Muhammadiyah Central Java informed that by the end of 2023 the number of employees of Lazismu in Central Java amounted to 317 employees spread across 35 districts and cities in central Java, and managed to raise about Rs 200 billion by 2023, LAZIS Muhammadiyah has great potential to contribute more to society. In addition, it is that of the number of employees that has Lazismu Muhammadiyah many problems that must of course be addressed in each of its regions, one of them is about the problem of compensation and work discipline of the employees of Lazismu Muhammadiyah Central Java. The research was inspired by employee performance issues at LAZIS Muhammadiyah, where early observations showed constraints in terms of compensation and work discipline. Compensation that is not in line with the workload can lead to an employee not focusing on work, which can lower productivity and quality of work.

Previous research has shown that compensation and work discipline have a positive impact on employee performance. However, the results of this study vary. For example, research conducted by (Ermita, Syamsudin, & Sugeng, 2021) It reveals that compensation and work discipline directly affect employee performance, with work motivation acting as a mediator in this relationship. Meanwhile, research (Butarbutar & Nawangsari, 2022), Compensation has no significant impact on employee performance. (Heliyani, Sylvatra, & Huseno, 2023) That compensation has no positive impact on employee performance. This suggests that further research is needed to test the impact of compensation and work discipline on employee performance, with work motivation as an intervening variable. Similar research was conducted by (Irama, Wahyuni, & Darmawan, 2024) which researches employee motivation and performance. The results of the study showed that there was no influence between motivation and the performance of teachers or employees at school. Of course, from several recent studies, it is the basis of the researcher's argument in conducting this research.

The variables studied include compensation, work discipline, employee performance and work motivation as moderation variables. LAZIS Muhammadiyah was chosen as the research location because LAZIS Muhammadiyah is a philanthropic institution that has a strategic role in the collection and distribution of zakat, infaq, and shodaqoh funds. In the governance of the movement, of course, there are managerial elements that must be researched in order to obtain objective results in order to improve and organize a healthy managerial from superiors to employees.

LITERATURE REVIEW

Motivation Theory

Abraham Maslow developed the Hierarchy of Needs Theory in 1943, one of the most prominent motivational theories. This theory divides human needs into five levels, which are arranged in the form of a hierarchy. According to Maslow, individuals must meet their basic needs before moving on to higher needs. Here is the hierarchy of needs in Maslow's Theory. (Hasibuan, 2000)

1. Physiological Needs: These are basic needs such as food, water, air, sleep, and others that are necessary for survival.
2. Security Needs: This includes physical, financial, and protection from harm.
3. Social Needs: The need for social relationships, love, friendship, and affiliation with others.
4. Appreciation Needs: This includes the desire to be appreciated, recognized, and have self-esteem.
5. Self-Actualization Needs: These are the needs to reach one's maximum potential, develop talents, and achieve high personal goals.

Maslow's theory of human motivation suggests that individuals will be driven by needs at a lower level in the hierarchy before they can begin to meet needs at a higher level. For example, a person will be more driven by physiological and security needs before they start thinking about social needs or self-actualization. In this study, there are three main variables that are the focus, namely compensation, work discipline, and employee performance. In addition, there is an intervening variable, namely work motivation that can affect the relationship between compensation and work discipline and employee performance. Therefore, in this literature review, each variable will be discussed in detail.

Compensation

Compensation is an important factor that affects employee motivation and performance. (Newman, Gerhart, & Milkovich, 2017) Defines compensation as any form of appreciation from the organization to employees in return for their contribution to achieving the organization's

goals. (Sutedjo & Mangkunegara, 2013) Declaring compensation is all forms of appreciation that employees receive from their employers as appreciation for the services provided. Compensation can be in the form of salaries, benefits, bonuses, incentives, and other perks.

A fair and adequate level of compensation can increase employees' motivation to do their jobs better. Conversely, if the compensation level is unfair or inadequate, then employees may feel unappreciated and unmotivated to perform their jobs to the fullest. Therefore, organizations need to establish a fair and transparent compensation system to motivate employees in achieving organizational goals.

Work Discipline

Work discipline plays a key role in improving employee performance. According (Robbins & Judge, 2017) Stating work discipline can be defined as the level of employee compliance with the rules and regulations that apply in the organization. Work discipline can be realized through the implementation of clear and consistent rules and sanctions against employees who violate the rules.

Organizations need to implement a fair and consistent work discipline system to maintain employee compliance with applicable rules and regulations. In addition, organizations also need to provide socialization and training related to the rules and regulations that apply in the organization to increase employees' understanding of work discipline.

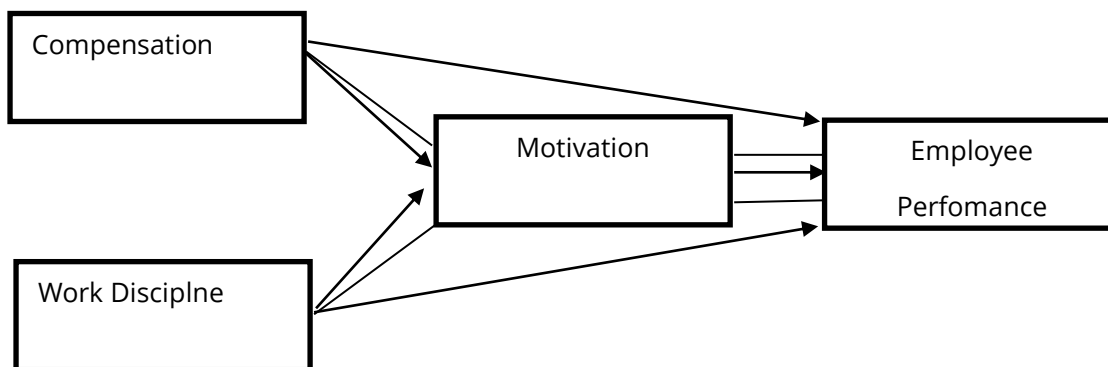
Employee Performance

According (Sutedjo & Mangkunegara, 2013) revealed that employee performance is the result of the work process carried out by employees in achieving organizational goals. Employee performance can be measured through several factors, such as productivity, quality of work, and the ability to achieve predetermined targets. Research (Nichols et al., 2014) Employee performance can be divided into two types, namely individual performance and team performance. Robbins & Judge in writing (Wahyuddin & Rachmat, 2023) states that individual performance refers to the work results and contributions of an individual in an organization or a specific task. It includes the efficiency, quality, and productivity of an individual's work, which is usually evaluated based on predetermined standards and targets. And research (Linhardt, Bisbey, & Salas, 2023) that team performance is the result of collective work produced by a group of individuals who have shared goals and responsibilities. It includes not only the achievement of goals, but also the communication, collaboration, and coordination process between team members.

(Yuyu Ruhayu, 2023) states that good employee performance can provide benefits to the organization, such as increasing efficiency and productivity, increasing customer satisfaction, and improving the organization's image and reputation. Therefore, organizations need to pay attention to factors that can affect employee performance, such as compensation and work discipline, to improve overall employee performance.

Work Motivation

Work motivation is an important factor in improving employee performance. Research (Judge & Robbins, 2017) states that work motivation can be defined as an internal process that influences the direction, intensity, and perseverance of employee behavior in achieving organizational goals. Work motivation can come from both internal and external factors. Internal factors include employees' personal needs, values, and goals, while external factors include the work environment, reward system, and recognition from superiors and colleagues. High work motivation can significantly improve employee performance, so organizations need to create a conducive work environment to motivate employees. A conceptual framework is an overview or schema regarding the relationship between the variables studied in the research (Sugiyono, 2017).

Figure 1 Conceptual Model

Based on the conceptual framework above, the independent variables in this study are compensation and work discipline. The intervening variable is work motivation, while the dependent variable is employee performance. The hypotheses in this study are:

Direct Influence:

- H1 : Compensation affects employee performance at LAZIS Muhammadiyah.
- H2 : Work discipline affects employee performance at LAZIS Muhammadiyah.
- H3 : Work motivation affects employee performance at LAZIS Muhammadiyah.
- H4 : Compensation affects work motivation at LAZIS Muhammadiyah.
- H5 : Work discipline affects work motivation at LAZIS Muhammadiyah.

Indirect Influence:

- H6 : Motivation strengthens the relationship between compensation and employee performance at LAZIS Muhammadiyah.
- H7 : Motivation strengthens the relationship between discipline and employee performance at LAZIS Muhammadiyah.

A number of studies have found that compensation and work discipline have a positive influence on employee performance. Syamsudin's research in writing (Muzaki, 2022) shows that compensation and work discipline have a direct influence on employee performance, while motivation mediates the relationship between compensation and work discipline and employee performance. Research (Yanto & Nefianto, 2023) found that compensation and work discipline had a positive influence on employee performance, without the mediation of motivation. Research (Syafnur, 2023) reinforcing these findings by showing that compensation has a positive influence on employee performance.

These studies show that compensation and work discipline can affect employee performance in various organizations. Therefore, research on the influence of compensation and work discipline on employee performance at Lazis Muhammadiyah is very relevant to be conducted. This study integrates work motivation as a mediating variable to analyze in more detail how compensation and work discipline affect employee performance. Previous research has shown that compensation and work discipline can affect employee performance in various organizations. In addition, work motivation can also mediate the relationship between compensation and work discipline and employee performance.

METHODS

This study uses a quantitative research approach. Quantitative research is a method based on the philosophy of positivism, used in researching research samples and populations. Quantitative research is research that presents data in the form of numbers as a result of the

research. A descriptive research method is a method in researching the status of a group of people, an object, a condition, a thought, or a current event.(Nurdiana, Abidin, & Fauzi, 2023)

Population refers to the entire group of people, events, or things that the researcher wants to research. The sample is a part of the population, the sample consists of a number of selected members from the population (Mulyadi, Eka, & Nailis, 2018). The sample in this study is 105 employees of LAZIS Muhammadiyah. The sample selection in this study used Simple Random Sampling.

According to Sugiyono, a questionnaire is a data collection technique that is carried out by giving a set of questions or written statements to respondents

gives respondents a set of questions or written statements to answer (Purwono, Ulya, Purnasari, & Juniatmoko, 2019). The procedure in this data collection method is: distributing the questionnaire and then respondents are asked to fill out the questionnaire on the answer sheet that has been provided; Then the questionnaire sheets are collected, selected, processed, and analyzed.

Data analysis was carried out using the Partial Least Square (PLS) method. PLS is one of the methods of solving Structural Equation Modeling (SEM) that has a higher degree of flexibility in research that connects theory and data, and is able to perform path analysis with latent variables so that it is often used by researchers who focus on social sciences. PLS is a fairly powerful method of analysis because it is not based on many assumptions. PLS is able to describe latent variables and is measured using indicators. The researcher uses PLS because this study is a latent variable that can be measured based on the indicators so that the researcher can analyze with clear and detailed calculations (Ghozali, 2020).

RESULTS

Table 1 Demographics Of Respondents (N=105)

Variable	Frequency	Category	Percentage
Gender	Male	73	69%
	Female	32	31%
Age	<25 t	23	21,9%
	26 s.d 35	50	47,62%
	36 s.d 45	20	19,05%
	46 s.d 55	11	10,48%
	>55	1	0,95%
Education	JHS	1	0,95%
	SHS	24	22,86%
	Diploma III	10	9,52%
	Bachelor (S1)	60	57,14%
	Master (S2)	10	9,52%
Marital Status	Marry	74	70,48%
	Unmarried	31	29,52%
Working Period	>1	15	14,29%
	1 s.d 5	65	61,90%
	6 s.d 10	21	20%
	>10	4	3,81%

Table 2 Measurement Model Results

Variable	Indicators	Quter Loading	Cronbachs Alpha	Composite Reliability	AVE
Compensation					
X1.1	Salary Satisfaction	0,747	0,692	0,828	0,617
X1.2	Performance Allowance	Invalid			
X1.3	Performance bonuses	0,768			
X1.4	Accepted Health Facilities	Invalid			
X1.5	Performance-enhancing facilities	0,839 Valid			
Work Discipline					
X2.1	Be present on time	0,712 Valid	0,746	0,856	0,667
X2.2	Delay Work	Invalid			
X2.3	Collaboration with colleagues	0,825 Valid			
X2.4	Comply with company regulations	0,902 Valid			
X2.5	Initiative without rational thinking	Invalid			
Employee Performance					
Y1	Obey the leader's orders	0,817 Valid	0,639	0,805	0,582
X2	Excessive resource consumption	Invalid			
X3	Complete tasks on time	0,810 Valid			
X3.4	Comfortable working the old way	Invalid			
X3.5	Take the initiative	0,650			
Motivation					
Z1	Meet basic needs	Invalid	0,436	0,779	0,639
Z2	Recognition for performance	Invalid			
Z3	Opportunity and equality of employees	0,769 Valid			
Z4	Rewarded for contributions and performance	0,828 Valid			
Z5	Difficulty communicating with colleagues	Invalid			

Table 3 Validity Of Discrimination

	Work Discipline	Employee Performance	Compensation	Motivation
Work Discipline	0,817			
Employee Performance	0,779	0,763		
Compensation	0,288	0,275	0,786	
Motivation	0,498	0,534	0,523	0,799

Table 4 Hypothesis Testing / Structural Model Testing

Hypotesis	Path Coeficie nt	P Value	97.5 % Trust Path Coefficient		Test results. Sig?	VIF	F Square / Upsilon V
			Lower Limit	Upper Limit			
DIRECT INFLUENCE							
Compensation - employee performance	-0,032	0,633	-0,157	0,101	Rejected	1,379	0,001
Work discipline - employee performance	0,683	0,000	0,533	0,805	Accepted	1,332	0,466
Work motivation - employee performance	0,211	0,016	0,040	0,375	Accepted	1,681	0,044
Compensation - work motivation	0,414	0,000	0,179	0,590	Accepted	1,090	0,171
Work discipline - work motivation	0,379	0,000	0,206	0,561	Accepted	1,090	0,143
INDIRECT INFLUENCE							
Compensation - Motivation - Employee Performance	0,087	0,025	0,016	0,172	Accepted		0,007
Work Discipline - Motivation - Employee Performance	0,080	0,063	0,014	0,187	Rejected		0,006

*Sig5% **Sig 1% ***Sig<1%

Table 5 R square

	R Square	Q ² _predict
Employee Performance	0,636	0,577
Motivation	0,405	0,356

Table 6 F Square

	Work Discipline	Employee Performance	Compensation	Motivation
Work Discipline		0,961		0,221
Employee Performance				
Compensation		0,002		0,264
Motivation		0,073		

DISCUSSION

Evaluation Of Reflective Measurement Models

The measurement model in this study consists of a reflective measurement model where the variables of leadership, compensation, motivation, performance and job satisfaction are measured reflectively. According to (Sarstedt, Ringle, & Hair, 2021) The reflective evaluation model consisted of a loading factor > 0.70 composite reliability > 0.70 Cronbach's alpha and average variance extracted (AVE > 0.50) as well as an evaluation of the validity of discrimination, namely the Fornell and Lacker criteria and the Heterotrait Monotrait Ratio (HTMT) below 0.90 cross loading. Meanwhile, according to (Chin, 1998) loading factor > 0.60. Researchers used the opinion of more renewable hair.

Discrimination Validity Test

Discrimination validity evaluation is the evaluation of a measurement model to ensure that variables are theoretically different and empirically/statistically tested. The method used is the fornell and lacker criteria as well as HTMT (Heterotrait Monotrait ratio) and the lacker is that the root of AVE is greater in correlation with the compensation variable and greater than the work discipline variable of the employee performance variable.

These results show that the validity of discrimination is fulfilled thereby the validity of compensation, work discipline and employee performance where the root of AVE is greater than the correlation between variables.(J. F. Hair, Risher, Sarstedt, & Ringle, 2019) recommend HTMT

because this measure of discriminatory validity is more sensitive or accurate in detecting the validity of the dissemination. The recommended value is below 0.90. The HTMT result is below 0.90 for variable pairs, then the validity of discrimination is achieved.

Structural Model Evaluation

The structural model coefficients for relationships between constructs are derived from estimating a series of regression equations. Before assessing the structural of the relationship, collinearity should be checked to ensure it does not refract the regression of the results. This process is similar to assessing a formative measurement model, but the latent score of the predictor construct variable in partial regression is used to calculate the VIF value. A VIF value above 5 indicates the possibility of a collinearity problem between the two predictor constructs, but a collinearity problem can also occur at a lower VIF value of 3-5 (Mason & Perreault Jr, 1991). Ideally, the VIF value should be close to 3 and lower.

If collinearity is an issue, a frequently used option is to create a higher-level model that can be supported by theory (J. F. Hair et al., 2019). F Square is a moderation test is 0.005 (low), 0.01 (moderate), 0.025 (high)

Based on the results of the hypothesis test above, it is known as follows:

1. 1 (H1) is rejected, i.e. there is no significant effect of compensation on employee performance with path coefficient (-0.032) and p-value (0.633 > 0.05) every change in compensation will improve employee performance. In the confidence interval of 97.5% of the small influence of compensation in improving employee performance is located between -0.157 – 0.101. Meanwhile, the value of f square has a low influence at 0.001.
2. (H2) is accepted, namely there is a significant influence of work discipline on employee performance with path coefficient (0.683) and p-value (0.000 < 0.05) every change in work discipline will improve employee performance. In the 97.5% high confidence interval the influence of work discipline in improving employee performance is located between 0.533 – 0.805. Meanwhile, the value of f square has a high influence at 0.466.
3. (H3) accepted, namely there is a significant influence of motivation on employee performance with path coefficient (0.211) and p-value (0.016 < 0.05) every change in motivation will improve employee performance. In the 97.5% high confidence interval, the influence of motivation in improving employee performance is located between 0.040 – 0.375. Meanwhile, the value of f square has a high influence at 0.044.
4. (H4) is accepted, namely there is a significant influence of compensation on work motivation with path coefficient (0.414) and p-value (0.000 < 0.05) every change in compensation will increase work motivation. In the 97.5% high confidence interval the influence of compensation in increasing work motivation is located between 0.179 – 0.590. Meanwhile, the value of f square has a high influence at 0.171.
5. (H5) is accepted, namely there is a significant influence of Work Discipline on work motivation with path coefficient (0.379) and p-value (0.000 < 0.05) every change in work discipline will increase work motivation. In the 97.5% high confidence interval, the influence of work discipline in increasing work motivation was between 0.206 – 0.561. Meanwhile, the value of f square has a high influence at 0.143.
6. (H6) accepted, namely there is a significant influence of work motivation as an intervening variable between compensation on employee performance with coefficient path (0.087) and p-value (0.025 < 0.05) In the 97.5% high confidence interval the influence of motivation mediation in mediating compensation on employee performance is located between 0.016 – 0.172. While the value of f square has a high influence at 0.07.
7. (H7) was rejected, i.e. there was no significant influence of work motivation as an intervening variable between work discipline on employee performance with coefficient path (0.080) and p-value (0.063 > 0.05) In the 97.5% high confidence interval the influence of motivation

mediation in mediating work discipline on employee performance was located between 0.014 – 0.187. Meanwhile, the value of f square has a low influence at 0.006.

Model Goodness And Fit Evaluation

PLS is a variant-based SEM analysis with the aim of testing model theory that focuses on prediction studies. Therefore, several measurement models were developed to declare the proposed model acceptable. Some models such as R Square, Q Square, SRMR, and PLS Predict and can add endogenousness and heterogeneity of model samples with FIMIX PLS. (J. F. Hair et al., 2019)

The statistical measure R describes the magnitude of the variation in endogenous variables that exogenous variables in the model are capable of. According to Chin 1998, the qualitative value of R Square interpretation is 0.19 (low influence), 0.33 (moderate influence), and 0.66 (high influence).

Based on the results of the above data processing, it can be interpreted that the magnitude of the joint influence of compensation and work discipline on employee performance is 63.6%. that the joint influence of compensation and work discipline on motivation was 40.5%.

Q Square describes a measure of prediction accuracy, i.e. how well each change in an exogenous/endogenous variable is able to predict an endogenous variable. According to hair, the qualitative interpretation value of Q square is 0 (low influence), 0.25 (moderate influence), 0.50 (high influence).

Based on the results of the above data processing, it can be taken that the Q square interpretation can be taken that employee performance is $0.577 > 0.50$ (high prediction accuracy) and motivation is $0.356 > 0.25$ (moderate prediction accuracy)

SRMR

SRMR (Root Mean Square Residual) standardizer is the value of the model's fit size. According to hair , an SRMR value below 0.08 indicates a fit model. However, according to Karin Schmelleh 2003, the SRMR value between 0.8 – 0.10 shows a fit model. based on the SRMR value above, it shows $0.110 > 0.10$ indicates that the fit model is not achieved.

PLS Predict

In most cases, researchers should use RMSE. If the distribution of prediction errors is very asymmetrical, its MAE is a more precise prediction statistic. Prediction statistics depend on the scale of the indicator's measurement and its raw value means little. Therefore, researchers need to compare the RMSE (or MAE) value with the benchmark.

The recommended benchmark (generated by the PLS predict method) uses the linear line of the regression model (LM) to generate the prediction of the manifest variable, by running the regression linear of each dependent construct indicator against the exogenous indicator of the latent variable in the PLS path model When comparing the RMSE (or MAE) with the LM value, the following guidelines apply (J. F. Hair et al., 2019):

1. If PLS-SEM analysis, compared to the LM benchmark produces higher results. Prediction errors in the RMSE (or MAE) for all indicators, this indicates that the model has no predictive power.
2. If the majority of dependent construct indicators in the PLS-SEM analysis produce a higher prediction error compared to the LM benchmark, it indicates that the model has low predictive power.
3. If a minority (or equal number) of indicators in the PLS-SEM analysis produce a higher prediction error compared to the LM benchmark, this indicates moderate predictive strength.
4. If none of the indicators in the PLS-SEM analysis have a higher RMSE (or MAE) value compared to the LM benchmark, the model has high predictive power. Judging from the results of the data analysis above, it is concluded that most of the measurement items of endogenous

variables, performance and job satisfaction of the proposed PLS model have lower RMSE and MAE values than the RM model, so the PLS model has medium prediction power.

The purpose of using (FIMIX-PLS) is a useful analytical approach in PLS-SEM that makes it possible to handle unobserved heterogeneities. Unobserved heterogeneity occurs when something significant. Differences in model relationships between data groups and these sources. Differences cannot be traced back to observable characteristics such as gender, age or income.

In particular, this paper provides an overview of unobserved heterogeneity, its prevalence and challenges for social science researchers. It also introduces FIMIX-PLS, which facilitates the identification and treatment of unobserved heterogeneity by offering guidance on how to apply the technique to specific research problems.

PLS-SEM applications typically analyze a complete set of data, implicitly assuming that the data are from a single homogeneous population. This assumption that relatively homogeneous data characteristics are often unrealistic. Individuals (e.g. in their behavior) or companies (e.g. in their structure) are different, and collecting data across observations tends to produce misleading results. Failure to consider such heterogeneity can be a threat to the validity of PLS-SEM results, leading to incorrect conclusions. (J. Hair Joe F., Sarstedt, Matthews, Ringle &, 2016)

Based on the results of the endogenous variables table above, it can be concluded that the variable, which consists of employee performance variables, has low values in 2 segments, which means that the distribution of data is heterogeneous, while the motivation variable has the lowest value in 1 segment, meaning that the distribution of homogeneous data.

CONCLUSION

Based on the results of the path analysis test that has been carried out previously, it can be concluded as follows:

1. (H1) is rejected, i.e. there is no significant effect of compensation on employee performance with path coefficient (-0.032) and p-value ($0.633 > 0.05$) every change in compensation will improve employee performance. In the confidence interval of 97.5% of the small influence of compensation in improving employee performance is located between -0.157 – 0.101. Meanwhile, the value of f square has a low influence at 0.001.
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SUGGESTION

Based on the conclusion of the research results, the suggestions given are as follows:

1. The next researcher is advised to increase the research area and time research so that more accurate research results will be obtained. Besides Therefore, the next research is recommended to take more samples from the districts/cities of the LAZIS Muhammadiyah service office in Central Java
2. For policy makers in each LAZIS Muhammadiyah service office, this research can be used as a reference in improving human resource management management in order to form an effective work environment

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