

# **The Role of the Work Environment in Mediating Competence on Work Performance at the Regional Finance and Assets Agency of North Sumatra Province**

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## **Abstract**

This study aims to analyze the influence of organizational culture on employee integrity with compensation as an intervening variable in the Regional Finance and Assets Agency of North Sumatra Province. The research approach used is quantitative with a survey method through the distribution of questionnaires to employees as respondents. The sample was determined by purposive sampling technique to ensure that the data obtained was relevant to the research objectives with a total of 80 respondents. The collected data was analyzed using path analysis techniques to determine the direct and indirect influence between variables. The results of the study show that organizational culture, both directly and indirectly, has a positive and significant effect on employee integrity and through compensation. In addition, compensation has a positive and significant effect on employee integrity. Thus, compensation has been shown to mediate the influence of organizational culture on employee integrity. The findings of this study are expected to be an input for management in improving employee integrity through strengthening work ethic, implementing a positive organizational culture, and providing fair and decent compensation.

**Keywords:** Organizational Culture, Compensation, Employee Integrity

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## **Introduction**

The Regional Finance and Assets Agency (BKAD) of North Sumatra Province is one of the regional apparatus that has an important role in managing local government finances and assets in a transparent, accountable, and integrity manner. Employee integrity is a fundamental factor in supporting the creation of good governance. According to Rini and Mahardika (2021), the integrity of public sector employees reflects honesty, responsibility, and compliance with the rules so that they can minimize corrupt practices and abuse of authority.

Factors that affect employee integrity depend not only on individual morale, but are also influenced by organizational culture and human resource management policies, including the compensation system. Fitriani & Surya (2020) explained that a strong organizational culture can shape the mindset, attitude, and behavior of employees to work in accordance with organizational values, such as honesty, discipline, and responsibility. Organizational culture is an important instrument to create a work environment that supports integrity behavior.

In addition, the provision of proper and fair compensation also plays a role in increasing work motivation and preventing deviant behavior. According to Susanto and Rahmawati (2021), good compensation can motivate employees to work optimally and comply with applicable ethical standards and regulations. Compensation in the public sector includes not only basic salary, but also performance allowances, incentives, and non-financial awards. Thus, compensation can act as a mediating variable that reinforces the influence of organizational culture on employee integrity.

Some research supports this relationship. Research by Putri & Ramadhan (2020) found that organizational culture has a positive effect on employee integrity through job satisfaction and compensation. Research by Setiawan & Nugroho (2022) also shows that compensation mediates the influence of organizational culture on employee loyalty and ethical behavior. This research emphasizes the importance of synergy between a good organizational culture and a supportive compensation policy.

However, research on the role of compensation as a mediating variable between organizational culture and employee integrity in the local government sector, especially in the Regional Finance and Assets Agency of North Sumatra Province, is still very limited. In fact, as a regional financial management institution, BKAD is required to have human resources with high integrity in every implementation of its duties.

Based on this description, this research is important to analyze how organizational culture affects employee integrity, with the role of compensation as a mediating variable. The results of this research are expected to be input for local governments in developing policies to strengthen organizational culture, improve the compensation system, and control strategies for employee behavior so that they can work honestly, responsibly, and professionally.

## **Literature Review**

### **2.1 Employee Integrity**

According to Robbins and Judge (2017), integrity in an organization is one of the dimensions of personality and work behavior that shows a level of consistency between words and actions, as well as adherence to the ethical and moral values of the organization.

### **Employee Integrity Indicators**

According to Robbins & Judge (2017)

#### **1. Honesty**

Employees are honest in their words and actions, do not commit fraud, and do not hide important information on the job.

2. Responsibility  
Employees are responsible for every decision and task undertaken, and do not look for scapegoats if something goes wrong.
3. Compliance with Values and Rules  
Consistently carry out work in accordance with organizational rules, codes of ethics, and applicable laws.
4. Consistency of Behavior The employee shows a stable, non-fickle attitude depending on who he or she is dealing with or a particular situation.
5. Commitment to Truth and Justice  
Be fair in making decisions and be willing to stand up for the truth even if it is unpopular.

## **2.2 Compensation**

According to Hasibuan (2017), compensation is all income in the form of money, direct or indirect goods received by employees in return for services provided to the company.

### **Compensation Indicators**

According to Hasibuan (2017) the indicators of compensation are:

1. Basic Salary  
The fixed remuneration that employees receive is based on the level of employment.
2. Allowances  
Additional rewards such as health benefits, transportation, meals, and housing.
3. Incentive  
Rewards based on performance or work productivity.
4. Work Facilities  
Providing facilities such as vehicles, laptops, or other facilities that support work.

## **2.3 Organizational Culture**

Robbins and Judge (2017) organizational culture is a system of shared meaning embraced by members of an organization that distinguishes the organization from other organizations. This culture encompasses the values, norms, and practices that develop and are maintained in the organization.

### **Organizational Culture Indicators**

According to Robbins and Judge (2017) the indicators of organizational culture are:

1. Innovation and Risk Taking  
The extent to which employees are encouraged to innovate and take risks in their work.
2. Attention to Detail  
A level of precision, precision and precision that is valued by the organization.
3. Result Orientation  
The extent to which the organization is focused on results as opposed to processes.
4. People Orientation  
The level of attention the organization pays to the influence of decisions on the members of the organization.
5. Team Orientation  
The extent to which work is organized is more on a team basis than an individual.
6. Aggressiveness  
The level of aggressiveness or competition in the organization.

7. Stability

The extent to which the organization's activities maintain the status quo compared to growth.

## 2.4 Conceptual Framework

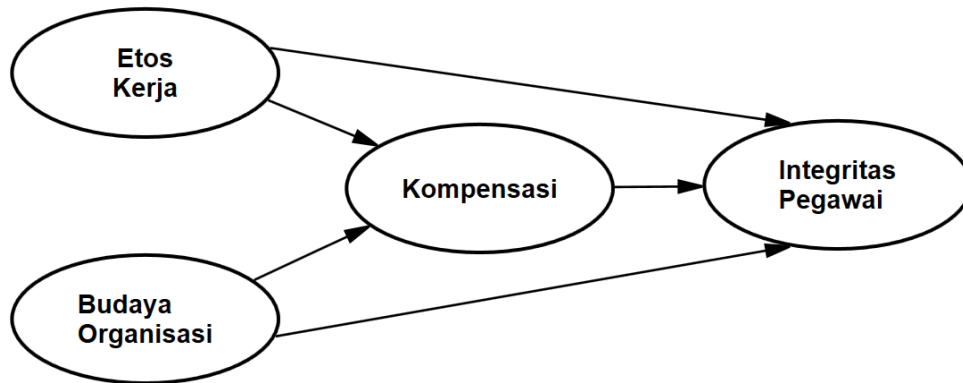


Figure 1. Conceptual Framework

## 2.5 Research Hypothesis

- H1: Organizational culture has a positive and significant effect on the integrity of employees at the Regional Finance and Assets Agency of North Sumatra Province.
- H2: Organizational culture has a positive and significant effect on compensation at the Regional Finance and Assets Agency of North Sumatra Province.
- H3: Compensation has a positive and significant effect on the integrity of employees at the Regional Finance and Assets Agency of North Sumatra Province.
- H4: Organizational culture has a positive and significant effect on employee integrity through compensation at the Regional Finance and Assets Agency of North Sumatra Province.

## Methods

### 3.1 Types of Research

The type of research that the researcher uses is quantitative research. This type of quantitative research was conducted to make a study that aimed to adjust a study and to analyze organizational culture towards employee integrity with compensation as an intervening variable in the Regional Finance and Assets Agency of North Sumatra Province.

### 3.2 Research Location and Research Time

The location of the research was conducted at the Regional Finance and Assets Agency of North Sumatra Province, which is located on Jl. Jl. Imam Bonjol No. 61, Suka Damai, Medan 20142. The research was carried out for 3 months, from May to July 2025.

### 3.3 Population and Sample

The population and sample in this study are all permanent employees at the Regional Finance and Assets Agency of North Sumatra Province. The number of employees at the office of the Regional Finance and Assets Agency of North Sumatra Province is 135 employees, with details: 80 ASN and 55 people as honorary employees. In this study, the sample was taken only from 80 ASN employees.

### 3.4 Research Data Sources

The data source used in this study is primary data.

## Result and Discussion

### 4.1 Outer Model Analysis

The *Outer Model* analysis using the *PLS Algorithm* yielded:

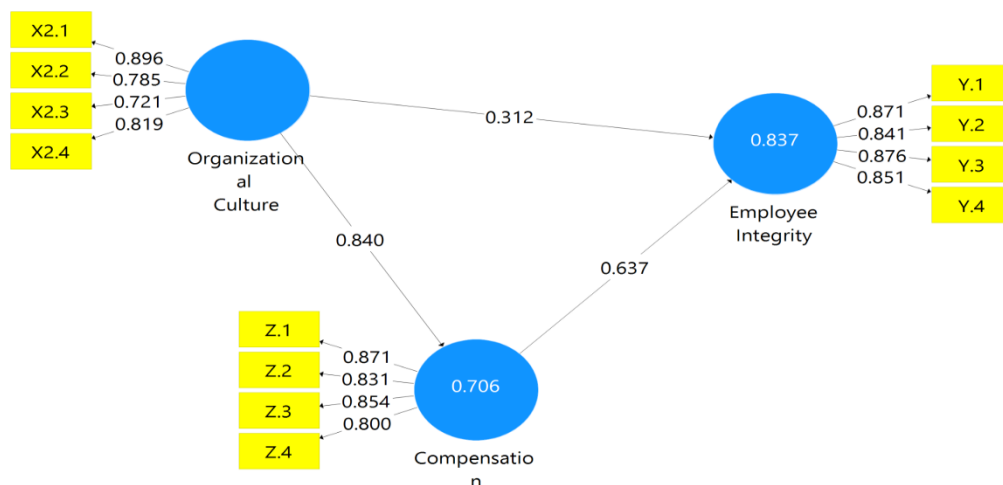
#### Validity Test

**Table 1. Value of Outer Loadings**

	Compensation	Employee Integrity	Organizational Culture
X2.1			0,896
X2.2			0,785
X2.3			0,721
X2.4			0,819
Y.1		0,871	
Y.2		0,841	
Y.3		0,876	
Y.4		0,851	
Z.1	0,871		
Z.2	0,831		
Z.3	0,854		
Z.4	0,800		

Source: PLS Smart Output, 2025

Based on the values in Table 1 above, showing the results of the outer model test through the loading factor / outer loadings value, all indicators in each variable have a loading value  $\geq 0.70$ . This shows that each indicator is able to represent a measured construct validly and robustly. Therefore, it can be concluded that all items in the questionnaire have met the criteria of convergent validity and can be used in subsequent analysis. For more details on the above value, you can also see the following figure.



**Figure 2. Outer Loadings**

## Reliability Test

**Table 2. Construct Reliability and Validity Test**

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Compensation	0,860	0,860	0,905	0,705
Employee Integrity	0,883	0,884	0,919	0,740
Organizational Culture	0,819	0,822	0,882	0,652

Source: PLS Smart Output, 2025

From Table 2 above, the reliability test results show that Cronbach's Alpha and Composite Reliability values on all constructs have values above 0.70. This shows that all indicators have high internal consistency and are reliable in measuring their respective constructs. Thus, the research instrument is declared reliable and feasible for use in structural model testing.

### 4.2 Coefficient of Determination (R<sup>2</sup>)

In assessing a model with PLS it starts by looking at the R-square for each dependent latent variable. The table below is the result of Rsquare estimation using SmartPLS.

**Table 3. R Square Results**

	R Square	R Square Adjusted
Compensation	0,706	0,702
Employee Integrity	0,837	0,833

Source: Smart PLS, 2025

In table 3, there is an R-square value in both dependent variables, for the compensation variable, there is an R-square value of 0.706, meaning that the influence of organizational culture is 0.706 or 70.6%, the rest is in other variables outside the model. The R square value of employee integrity is 0.837, meaning that the influence of organizational culture and compensation is 0.837 or 83.7%, the rest is on other variables outside the model.

### 4.3 Structural Model Testing (Inner Model)

#### Hypothesis Testing

##### 1. Direct Influence Between Variables

The direct influence between variables can be seen in the value of *path coefficients*. The results of the data processing show the value of direct influence can be seen in the following table.

**Table 4. Path Coefficients (Direct Influence)**

	Original Sample	T Statistics	P Values	Conclusion
Organizational Culture -> Compensation	0,840	14,575	0,000	Accepted
Organizational Culture -> Employee Integrity	0,312	3,384	0,001	Accepted
Compensation -> Employee Integrity	0,637	6,917	0,000	Accepted

Source: PLS Smart Output, 2025

In the results of Table 4, there is a direct influence value which will be explained as follows:

- a. Organizational culture has a positive and significant effect on employee integrity with a t-statistical value of 14.575 and a significance of 0.000 below 0.05, meaning that organizational culture has a positive and significant effect on employee integrity because the significance value is below 0.05. The results of this study are in accordance with research conducted by Maharani (2022) which states that organizational culture has a positive and significant effect on the implementation of internal control systems and its implications on the integrity of SMEs in Bojonegoro.
- b. Organizational culture has a positive and significant effect on compensation with a t-statistical value of 3.384 above 1.96 and a significance of 0.001 below 0.05, meaning that organizational culture has a positive and significant effect on compensation because the significance value is below 0.05. The results of this study are also in accordance with research conducted by Nugraha (2023) which states that organizational culture has a positive and significant effect on study compensation at hotel X in Sidoarjo.
- c. Compensation has a positive and significant effect on employee integrity with a t-statistical value of 6.917 above 1.96 and a significance of 0.000 below 0.05, meaning that compensation has a positive and significant effect on employee integrity because the significance value is below 0.05. Maulana's research (2024) also states that compensation has a positive and significant effect on the integrity of employees at the Regional Office of the Directorate General of Taxes of East Java III.

## 2. Indirect Influence Between Variables

The indirect influence between variables can be seen in the value of *specific indirect effects*. The results of data processing show the value of indirect influence can be seen in Table 5 below.

**Table 5. Specific Indirect Effects**

	Original Sample	T Statistics	P Values	Conclusion
Organizational _Culture -> Compensation -> Employee Integrity	0,535	5,703	0,000	Accepted

Source: Smart PLS, 2025

In table 5, there is an indirect influence between variables which will be explained as follows:

- a. Organizational culture has a positive and significant effect on employee integrity through compensation with a t-statistical value of 5.703 and a significance value of 0.000, meaning that compensation plays an intervening variable between organizational culture and employee integrity. Nugraha (2023) also stated in his research that organizational culture has a positive and significant effect on employee integrity through compensation.

## Conclusion

1. Competence has a positive and significant effect on work productivity at the Regional Finance and Assets Agency of North Sumatra Province.
2. Competence has a positive and significant effect on work discipline at the Regional Finance and Assets Agency of North Sumatra Province.

3. Work discipline has a positive and significant effect on work productivity at the Regional Finance and Assets Agency of North Sumatra Province.
4. Competence has a positive and significant effect on work productivity through work discipline at the Regional Finance and Assets Agency of North Sumatra Province.

### **Suggestion**

1. Organizational culture with the statement "My organization is more focused on the end result than the process". It turns out that the statement has the lowest value so that employees feel that their agency does not appreciate the process because the focus is only on the final result. In the future, the Regional Finance and Assets Agency of North Sumatra Province should also continue to pay attention to the processes that have been carried out by its employees so that their employees still feel appreciated and remain enthusiastic in the process to achieve the expected results.
2. For compensation with the statement "The incentives they get are not in accordance with their performance achievements". It is better for the Regional Finance and Assets Agency of North Sumatra Province to pay more attention to the incentives that will be received by its employees in relation to the performance they have achieved, with incentives that are in accordance with their expectations it is hoped that they can continue to work with even better performance.
3. Employee integrity with the statement "I completed the tasks that are my responsibility to the best of my ability". It turns out that employees feel that the responsibilities they have done have not been maximized, so the agency pays more attention to employees who are less responsible for the tasks they have to carry out. They need to be supported to work as best as possible in accordance with their respective responsibilities.

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