

Strategic Human Resource Management Practices

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Abstract

This study aims to analyze the effect of competence and compensation on employee performance with job satisfaction as an intervening variable at PLN UP2D North Sumatra. This research employed a quantitative approach using a survey method. The population consisted of all employees of PLN UP2D North Sumatra, with a total sample of 117 employees, selected using a saturated sampling technique. Data were collected through questionnaires and analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software. The results indicate that competence and compensation have a positive and significant effect on job satisfaction, and competence, compensation, and job satisfaction have a positive and significant effect on employee performance. Furthermore, job satisfaction was proven to mediate the effect of competence and compensation on employee performance. These findings suggest that improving employee competence and implementing a fair compensation system, accompanied by efforts to enhance job satisfaction, can effectively improve employee performance. This study is expected to contribute to the development of human resource management theory and provide practical insights for PLN management in enhancing employee performance.

Keywords: Competence, Compensation, Job Satisfaction, Employee Performance.

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Introduction

The success of an organization is not solely determined by advanced technology or the amount of capital, but heavily depends on the ability of employees to carry out their duties and responsibilities professionally. Improving employee performance becomes a top priority in achieving organizational goals effectively and efficiently. However, the improvement of employee performance does not always run optimally. Several problems often arise, such as low motivation levels, lack of recognition for performance, and differences in competence levels among employees. This can impact work effectiveness and service quality. Companies need to pay attention to factors that can improve employee performance, one of which is through strengthening competence and providing fair and appropriate compensation based on employee contributions. Competence is the basic ability possessed by employees to carry out tasks based on knowledge, skills, and work attitudes. Employees with high competence are able to adapt to changes, complete work efficiently, and deliver quality results. Compensation is a form of reward given by the organization to employees for their contributions, both in financial and non-financial forms. Fair, transparent, and competitive compensation will foster employee motivation and loyalty towards the company. Job satisfaction reflects the extent to which employees feel happy, valued, and comfortable with their work. Employees who feel their competence is recognized and receive fair compensation tend to have high levels of job satisfaction. This condition ultimately encourages them to deliver their best performance for the organization. Thus, job satisfaction can function as a link that strengthens the influence of competence and compensation on employee performance.

Employees who are satisfied with their work and environment tend to have high intrinsic motivation, work more productively, and are committed to organizational goals. Job dissatisfaction often impacts decreased productivity, increased stress levels, and low loyalty to the organization.

Problem Formulation

1. Does Competence have a positive and significant effect on Employee Performance at PLN UP2D North Sumatra?
2. Does Compensation have a positive and significant effect on Employee Performance at PLN UP2D North Sumatra?
3. Does Competence have a positive and significant effect on Job Satisfaction at PLN UP2D North Sumatra?
4. Does Compensation have a positive and significant effect on Job Satisfaction at PLN UP2D North Sumatra?
5. Does Job Satisfaction have a positive and significant effect on Employee Performance at PLN UP2D North Sumatra?
6. Does Competence have a positive and significant effect on Employee Performance through Job Satisfaction at PLN UP2D North Sumatra?
7. Does Compensation have a positive and significant effect on Employee Performance through Job Satisfaction at PLN UP2D North Sumatra?

Research Objectives

1. To test and analyze the effect of Competence on Employee Performance at PLN UP2D North Sumatra.
2. To test and analyze the effect of Compensation on Employee Performance at PLN UP2D North Sumatra.
3. To test and analyze the effect of Competence on Job Satisfaction at PLN UP2D North Sumatra.
4. To test and analyze the effect of Compensation on Job Satisfaction at PLN UP2D North Sumatra.
5. To test and analyze the effect of Job Satisfaction on Employee Performance at PLN UP2D North Sumatra.

6. To test and analyze the effect of Competence on Employee Performance through Job Satisfaction at PLN UP2D North Sumatra.
7. To test and analyze the effect of Compensation on Employee Performance through Job Satisfaction at PLN UP2D North Sumatra.

Employee Performance

According to Hersey, Blanchard, & Johnson (2018): Employee performance is the work results achieved by an individual according to organizational standards. According to Armstrong (2017): Employee performance is the individual's ability to achieve organizational goals effectively, efficiently, and with quality, encompassing the quality, quantity, and timeliness of task completion.

Indicators of Employee Performance

Armstrong (2017) indicators of Employee Performance are as follows:

1. Quality of work results
2. Quantity of work completed
3. Timeliness of task completion
4. Discipline and rule compliance
5. Initiative and responsibility

Factors Influencing Employee Performance

According to Armstrong (2017), factors influencing employee performance are:

1. Individual ability and competence - includes knowledge, skills, and work experience.
2. Motivation and commitment - internal drive to achieve targets and willingness to contribute to the organization.
3. Leadership and managerial style - influence of leaders on employee morale and work direction.
4. Reward system - fairness and appropriateness of compensation with performance.
5. Work environment - physical, social, and cultural conditions of the organization that support productivity.
6. Clarity of goals and roles - employee understanding of work targets and responsibilities.

Competence

According to Boyatzis (2016): Competence is an individual's ability to achieve superior work results, encompassing consistent skills, knowledge, and motivation.

According to Suharti (2020): Competence is the ability, knowledge, skills, and behavior demonstrated by employees to complete tasks effectively.

Indicators of Competence

According to Boyatzis (2016), indicators of Competence are as follows:

1. Mastery of technical and professional knowledge
2. Skills in performing tasks
3. Ability to adapt to change
4. Creativity and innovation in work
5. Decision-making ability

Compensation

According to Noe et al. (2020): Compensation is the reward given by the organization to employees in return for their effort and work contribution. According to Milkovich & Newman (2017): Compensation is all forms of reward received by employees for their contributions, both financial and non-financial.

Indicators of Compensation

According to Milkovich & Newman (2017), indicators of Compensation are as follows:

1. Basic salary or wages
2. Incentives or performance-based bonuses
3. Allowances or additional facilities
4. Fairness and appropriateness of the compensation system
5. Satisfaction with reward policies

Job Satisfaction

According to Spector (2018): Job satisfaction is an individual's attitude towards their job, encompassing feelings of satisfaction with responsibilities, salary, work environment, and interpersonal relationships. According to Locke (2019): Job satisfaction is a person's positive or negative feelings about their job, reflecting the level of comfort and recognition received.

Indicators of Job Satisfaction

According to Locke (2019), indicators of Job Satisfaction are as follows:

1. Satisfaction with job tasks and responsibilities
2. Satisfaction with income/compensation
3. Satisfaction with relationships with superiors and colleagues
4. Satisfaction with opportunities for self-developmen.
5. Satisfaction with work environment conditions

Conceptual Framework

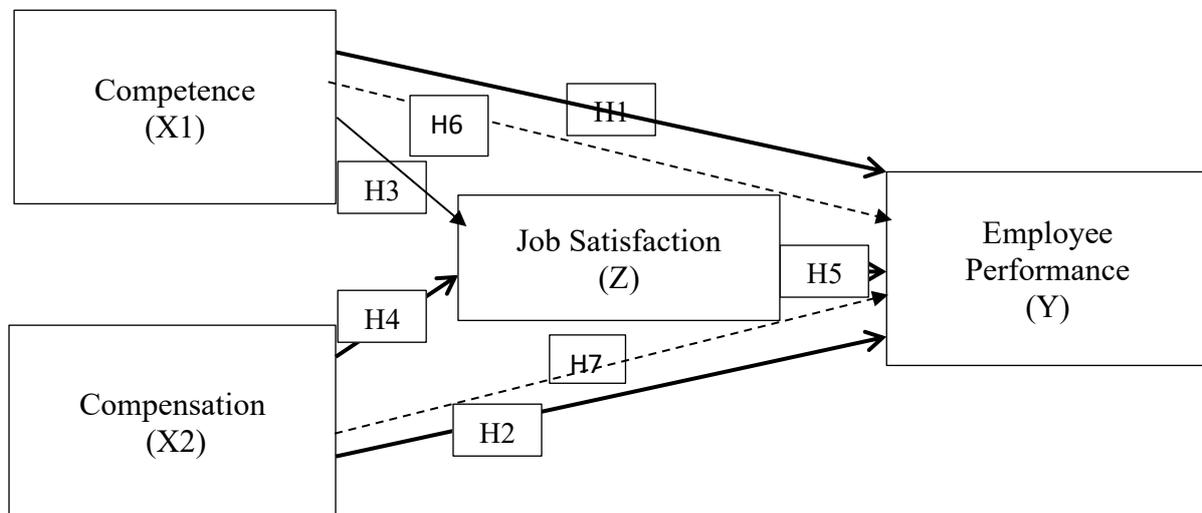


Figure 1. Conceptual Framework

Research Hypotheses

- H1: Competence has a positive and significant effect on Employee Performance at PLN UP2D North Sumatra.
- H2: Compensation has a positive and significant effect on Employee Performance at PLN UP2D North Sumatra.
- H3: Competence has a positive and significant effect on Employee Job Satisfaction at PLN UP2D North Sumatra.
- H4: Compensation has a positive and significant effect on Employee Job Satisfaction at PLN UP2D North Sumatra.
- H5: Job Satisfaction has a positive and significant effect on Employee Performance at PLN UP2D North Sumatra.
- H6: Competence has a positive and significant effect on Employee Performance through Job Satisfaction as an intervening variable at PLN UP2D North Sumatra.

H7: Compensation has a positive and significant effect on Employee Performance through Job Satisfaction as an intervening variable at PLN UP2D North Sumatra.

Research Type

According to Creswell (2018), associative research is research that aims to determine the relationship or influence between two or more variables, whether causal or correlational. According to Sugiyono (2019), quantitative research is a research method based on the philosophy of positivism, used to study specific populations or samples, and data is collected using research instruments and analyzed statistically to test predetermined hypotheses.

Research Time and Location

This research was conducted from November 2025 to December 2025. The research location is the PLN UP2D North Sumatra Office, located at Jl. KL. Yos Sudarso No.284, Glugur Kota, Medan Barat District, Medan City, North Sumatra 20238.

Population and Sample

According to Sugiyono (2020), population is the generalization area consisting of objects or subjects that have certain qualities and characteristics determined by the researcher to be studied and then conclusions are drawn. The population in this study is all employees of the PLN UP2D North Sumatra Office, totaling 117 people.

The sampling technique uses saturated sampling. According to Riduwan (2020), saturated sampling is a sampling determination technique when all population members are used as the research sample. Thus, the number of samples in this study is 117 respondents.

Data Source

According to Sugiyono (2018), a data source is the subject from which data can be obtained. The data source in this study uses primary data, which is data obtained directly from respondents through distributing questionnaires to employees at the PLN UP2D North Sumatra Office.

Data Analysis Technique Using Smart PLS 3

In quantitative research using latent variables, Partial Least Squares Structural Equation Modeling (PLS-SEM) is an effective method for testing relationships between variables.

Outer Model (Measurement Model)

The outer model is the part that connects latent variables with their indicators. Its purpose is to ensure that the indicators used are valid and reliable.

Stages of the Outer Model according to experts:

- a. Convergent Validity.
- b. Discriminant Validity
- c. Reliability

With outer model analysis, researchers can ensure that all indicators accurately represent the research variables.

2. Inner Model (Structural Model)

The inner model assesses the relationships between latent variables, including direct effects, indirect effects (mediation), and moderation.

Stages of the Inner Model according to experts:

- a. Path Coefficient
- b. R-Square (R^2)
- c. Effect Size (f^2)

Results

Outer Model Analysis

Testing the measurement model (outer model) was conducted to determine the specification of the relationship between latent variables and their manifest variables. This testing is to determine whether the values are distributed validly and reliably. To conduct the research, all indicator values must be valid and reliable. This includes convergent validity, discriminant validity, and reliability.

Convergent Validity

Convergent validity of the reflective measurement model can be seen from the correlation between the item/indicator scores and the construct scores. Indicators with individual correlation values greater than 0.7 are considered valid, but in development stage research, indicator values of 0.5 and 0.6 are still acceptable. Based on the results for outer loading, there are indicators with loadings below 0.60 and not significant. The structural model in this study is shown in the following figure.

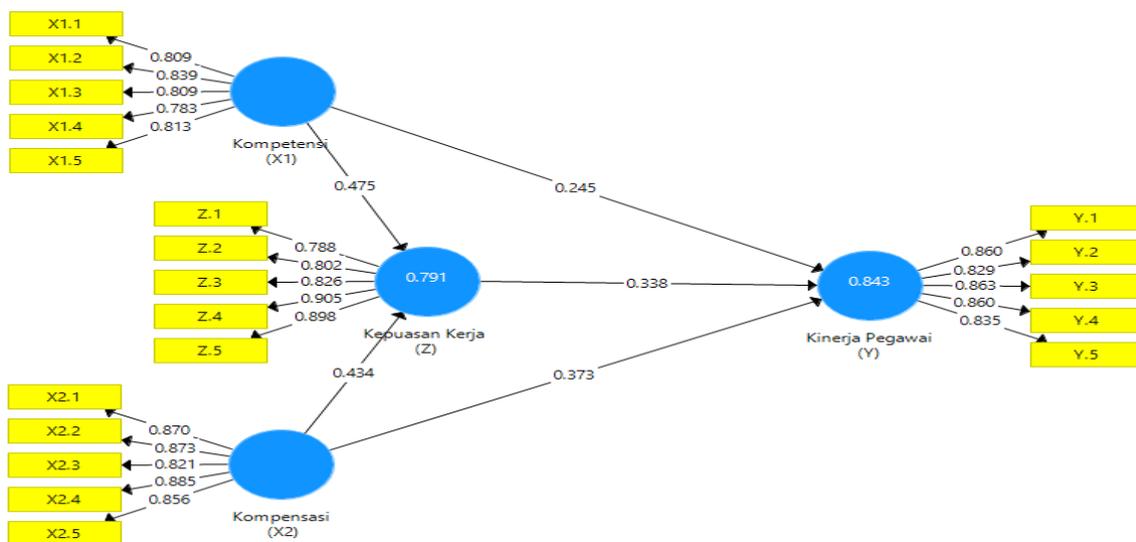


Figure 2. Outer Model

Sumber: Smart PLS 3.3.3

The Smart PLS output for loading factor provides the results in the following table: Outer Loadings. This study has equations, and that equation consists of two substructures. For substructure 1:

$$Z = b_1X_1 + b_2X_2 + e_1$$

$$Z = 0,251 + 0,645 + e_1$$

For substructure 2:

$$Y = b_3X_1 + b_4X_2 + b_5Z + e_2$$

$$Y = 0,233 + 0,018 + 0,671 + e_2$$

Table 1. Outer Loadings

	Job Satisfaction _ (Z)	Employee Performance (Y)	Compensation_ (X2)	Competence _(X1)
X1.1				0,809
X1.2				0,839
X1.3				0,809
X1.4				0,783

X1.5				0,813
X2.1			0,870	
X2.2			0,873	
X2.3			0,821	
X2.4			0,885	
X2.5			0,856	
Y.1		0,860		
Y.2		0,829		
Y.3		0,863		
Y.4		0,860		
Y.5		0,835		
Z.1	0,788			
Z.2	0,802			
Z.3	0,826			
Z.4	0,905			
Z.5	0,898			

Sumber: Smart PLS 3.3.3

Based on Table 1, all indicators for the Competence (X1), Compensation (X2), Employee Performance (Y), and Job Satisfaction (Z) variables have outer loading values above 0.70. This shows that each indicator is able to reflect its construct well and meets the convergent validity criteria, so all indicators are declared valid and suitable for use in the research model.

Discriminant Validity

The next research step is to determine data that is valid in terms of Discriminant Validity, aiming to determine whether the cross-loading value is greater than other latent variables, thus determining whether the indicator correlates highly with its construct. The following table shows the cross-loading results from the validity test:

Table 2. Discriminant Validity

	Job Satisfaction (Z)	Employee Performance (Y)	Compensation_ (X2)	Competence (X1)
X1.1	0,697	0,744	0,734	0,809
X1.2	0,709	0,774	0,746	0,839
X1.3	0,732	0,687	0,672	0,809
X1.4	0,700	0,700	0,734	0,783
X1.5	0,697	0,661	0,827	0,813
X2.1	0,731	0,692	0,870	0,785
X2.2	0,785	0,821	0,873	0,844
X2.3	0,729	0,785	0,821	0,805
X2.4	0,736	0,739	0,885	0,764
X2.5	0,752	0,786	0,856	0,738
Y.1	0,735	0,860	0,769	0,722
Y.2	0,776	0,829	0,738	0,762
Y.3	0,679	0,863	0,768	0,732
Y.4	0,732	0,860	0,735	0,765
Y.5	0,789	0,835	0,769	0,757

Z.1	0,788	0,681	0,743	0,693
Z.2	0,802	0,686	0,705	0,690
Z.3	0,826	0,747	0,702	0,716
Z.4	0,905	0,789	0,747	0,782
Z.5	0,898	0,788	0,774	0,797

Sumber: Smart PLS 3.3.3

Based on Table 2, each indicator has the highest loading value on the construct it measures compared to other constructs. This shows that the indicators of Competence (X1), Compensation (X2), Employee Performance (Y), and Job Satisfaction (Z) are able to distinguish their constructs well. Thus, the research model has met the discriminant validity criteria and all indicators are declared valid.

Composite reliability

In this research, composite reliability is used to view each variable along with its reliability value. If the variable value is greater than 0.60, the research is considered reliable, and if it is below 0.60 and 0.7, it is not reliable. There are several blocks to determine whether the research is reliable or not, and valid or not, including Cronbach's alpha value, composite reliability, and AVE value, as can be seen in the table below:

Table 3.Construct Reliability and Validity

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Job Satisfaction (Z)	0,899	0,926	0,715
Employee Performance (Y)	0,903	0,928	0,721
Compensation (X2)	0,913	0,935	0,742
Competence (X1)	0,870	0,906	0,658

Sumber: Smart PLS 3.3.3

Based on Table 3, all research constructs have Cronbach's Alpha and Composite Reliability values above 0.70, indicating that the research instrument is reliable. Furthermore, the Average Variance Extracted (AVE) values for all variables are also greater than 0.50, thus meeting the convergent validity criteria. Therefore, the constructs of Job Satisfaction, Employee Performance, Compensation, and Competence are declared reliable and valid for use in further analysis.

Inner Model Analysis

Evaluation of the structural model (inner model) is conducted to ensure that the built structural model is robust and accurate. The analysis stages performed in the structural model evaluation are seen from several indicators, namely:

Coefficient of Determination (R2)

Based on data processing that has been carried out using the SmartPLS 3.0 program, the following R Square values were obtained:

Table 4.R Square Results

	R Square	Adjusted R Square
Job Satisfaction (Z)	0,791	0,787

Employee Performance (Y)	0,843	0,839
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Sumber: Smart PLS 3.3.3

Based on Table 4, the R Square value for Job Satisfaction (Z) is 0.791, indicating that 79.1% of the variation in job satisfaction can be explained by the independent variables in the model, while 20.9% is influenced by other factors outside the research. Meanwhile, the R Square for Employee Performance (Y) of 0.843 means that 84.3% of the variation in employee performance can be explained by the variables in the model, and the remaining 15.7% is explained by variables outside the research model.

Hypothesis Testing

After assessing the inner model, the next step is to evaluate the relationships between latent constructs as hypothesized in this research. Hypothesis testing in this research was conducted by looking at the T-Statistics and P-Values. A hypothesis is declared accepted if the T-Statistics value is > 1.96 and the P-Values is < 0.05. The following are the results of Path Coefficients for direct effects:

Table 5. Path Coefficients (Direct Effects)

	Original Sample (O)	T Statistics (O/STDEV)	P Values	Results
Job Satisfaction (Z) -> Employee Performance (Y)	0,338	4,139	0,000	Accepted
Compensation (X2) -> Job Satisfaction (Z)	0,434	4,553	0,000	Accepted
Compensation (X2) -> Employee Performance (Y)	0,373	3,309	0,001	Accepted
Competence (X1) -> Job Satisfaction (Z)	0,475	4,782	0,000	Accepted
Competence (X1) -> Employee Performance (Y)	0,245	2,196	0,014	Accepted

Sumber: Smart PLS 3.3.3

1. Effect of Job Satisfaction (Z) on Employee Performance (Y) The test results show that job satisfaction has a positive and significant effect on employee performance, with a coefficient value of 0.338, T-statistic of 4.139, and p-value of 0.000. Thus, the hypothesis is accepted, meaning the higher the job satisfaction, the higher the employee performance.
2. Effect of Compensation (X2) on Job Satisfaction (Z) Compensation is proven to have a positive and significant effect on job satisfaction with a coefficient of 0.434, T-statistic of 4.553, and p-value of 0.000. This result shows that providing good compensation is able to increase employee job satisfaction, so the hypothesis is accepted.
3. Effect of Compensation (X2) on Employee Performance (Y) The analysis results show that compensation has a positive and significant effect on employee performance, with a coefficient value of 0.373, T-statistic of 3.309, and p-value of 0.001. Thus, the hypothesis is accepted, meaning the better the compensation received by employees, the more their performance tends to increase.
4. Effect of Competence (X1) on Job Satisfaction (Z) Competence has a positive and significant effect on job satisfaction, with a coefficient of 0.475, T-statistic of 4.782, and p-value of 0.000. This shows that high competence can increase employee job satisfaction, so the hypothesis is accepted.
5. Effect of Competence (X1) on Employee Performance (Y) The test results show that competence has a positive and significant effect on employee performance, with a

coefficient of 0.245, T-statistic of 2.196, and p-value of 0.014. Thus, the hypothesis is accepted, meaning improving employee competence can encourage an increase in employee performance.

Table 6. Path Coefficients (Indirect Effects)

	Original Sample (O)	T Statistics (O/STDEV)	P Values	Results
Compensation_ (X2) -> Job Satisfaction_(Z) -> Employee Performance (Y)	0,147	3,260	0,001	Accepted
Competence_(X1) -> Job Satisfaction_(Z) -> Employee Performance (Y)	0,160	3,021	0,001	Accepted

Sumber: Smart PLS 3.3.3

6. Indirect Effect of Compensation (X2) on Employee Performance (Y) through Job Satisfaction (Z) The test results show that compensation has a positive and significant effect on employee performance through job satisfaction, with a coefficient value of 0.147, T-statistic of 3.260, and p-value of 0.001. Thus, job satisfaction is proven to mediate the effect of compensation on employee performance, so the hypothesis is accepted.
7. Indirect Effect of Competence (X1) on Employee Performance (Y) through Job Satisfaction (Z) The analysis results show that competence has a positive and significant effect on employee performance through job satisfaction, with a coefficient of 0.160, T-statistic of 3.021, and p-value of 0.001. This shows that job satisfaction plays a role as an intervening variable that strengthens the effect of competence on employee performance, so the hypothesis is accepted.

Conclusion

1. Job satisfaction has a positive and significant effect on employee performance. This means, the higher the level of employee job satisfaction, the higher the employee performance.
2. Compensation has a positive and significant effect on job satisfaction. This shows that providing adequate and fair compensation is able to increase employee job satisfaction.
3. Compensation has a positive and significant effect on employee performance. Thus, the better the compensation received by employees, the more optimal their performance will be.
4. Competence has a positive and significant effect on job satisfaction. This shows that employees with high competence tend to have better job satisfaction levels.
5. Competence has a positive and significant effect on employee performance. This means, improving employee competence can encourage an increase in employee performance.
6. Compensation has a positive and significant effect on employee performance through job satisfaction. This proves that job satisfaction is able to mediate the effect of compensation on employee performance.
7. Competence has a positive and significant effect on employee performance through job satisfaction. Thus, job satisfaction plays a role as an intervening variable that strengthens the effect of competence on employee performance.

Suggestions

1. Management is advised to continuously improve a compensation system that is fair, transparent, and in accordance with workload and employee performance, as compensation has been proven to increase both job satisfaction and employee performance.

2. The organization needs to pay attention to the development of employee competence through continuous training, education, and skill development, so that employees have adequate ability to carry out tasks and can improve their performance.
3. Management is expected to create a work environment that supports job satisfaction, such as harmonious work relationships, recognition of achievements, and career development opportunities, as job satisfaction has been proven to play an important role in improving employee performance.
4. By paying attention to improving compensation and competence in a balanced manner and strengthening job satisfaction, the organization is expected to be able to improve employee performance optimally and sustainably.

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