Performance Model of Employees Based on Compensation

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Abstract
This study aims to analyze the influence of interpersonal communication and work ethic on employee performance with compensation as an intervening variable at the Regional Development Planning, Research and Innovation Agency of Asahan Regency. The population in this study amounted to 40 employees. The sampling technique used was saturated sampling, so the entire population was used as respondents. The analytical method used is path analysis with the assistance of Partial Least Square (PLS). The results showed that work ethic has a positive and significant effect on employee performance and on compensation. Compensation also has a positive and significant effect on employee performance. Interpersonal communication has a positive and significant effect on compensation, but does not have a significant direct effect on employee performance. Furthermore, compensation is able to mediate the effect of work ethic and interpersonal communication on employee performance. In conclusion, improving work ethic and support from a good compensation system are important factors in encouraging improved employee performance.

Keywords: *Interpersonal Communication, Work Ethic, Compensation, Employee Performance.*

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Introduction

Employee performance is one of the strategic elements in creating good government management, because organizational success in achieving development goals is not only determined by appropriate policies, but also by the quality of the human resources who implement them. The high complexity of work related to various internal and external stakeholders makes employee performance a key aspect that needs serious attention. In practice, several phenomena still show communication barriers in the form of delayed information, miscoordination between fields, and less effective communication styles, which in turn can affect employee performance achievements. In government organizations, the diversity of employee characteristics creates variations in the level of work ethic which can be seen through time discipline, seriousness in completing tasks, and initiative at work. Employee performance is also influenced by the compensation provided by the organization, both in financial and non-financial forms. Providing fair and proportional compensation can increase work motivation and encourage employee commitment in carrying out their duties. In the public sector, compensation is generally regulative and follows government regulations, thus having limitations in the flexibility of giving rewards. Phenomena arise after changes in organizational structure and performance demands. Compensation is seen as being able to act as an intervening variable that bridges the relationship between interpersonal communication and work ethic on employee performance. This means that good interpersonal communication and work ethic will have a more optimal impact on performance if followed by adequate compensation.

Problem Formulation

1. Does interpersonal communication have a positive and significant effect on employee performance at BAPPERIDA Asahan Regency?
2. Does work ethic have a positive and significant effect on employee performance at BAPPERIDA Asahan Regency?
3. Does interpersonal communication have a positive and significant effect on providing compensation to employees at BAPPERIDA Asahan Regency?
4. Does work ethic have a positive and significant effect on providing compensation to employees at BAPPERIDA Asahan Regency?
5. Does providing compensation have a positive and significant effect on employee performance at BAPPERIDA Asahan Regency?
6. Does interpersonal communication have a positive and significant effect on employee performance with compensation as an intervening variable at BAPPERIDA Asahan Regency?
7. Does work ethic have a positive and significant effect on employee performance with compensation as an intervening variable at BAPPERIDA Asahan Regency?

Research Objectives

The objectives of this research are to:

1. Test and analyze the effect of interpersonal communication on employee performance at BAPPERIDA Asahan Regency.
2. Test and analyze the effect of work ethic on employee performance at BAPPERIDA Asahan Regency.
3. Test and analyze the effect of interpersonal communication on providing compensation to employees at BAPPERIDA Asahan Regency.
4. Test and analyze the effect of work ethic on providing compensation to employees at BAPPERIDA Asahan Regency.
5. Test and analyze the effect of providing compensation on employee performance at BAPPERIDA Asahan Regency.
6. Test and analyze the effect of interpersonal communication on employee performance with compensation as an intervening variable at BAPPERIDA Asahan Regency.

7. Test and analyze the effect of work ethic on employee performance with compensation as an intervening variable at BAPPERIDA Asahan Regency.

Literature Review

Employee Performance

According to Afandi (2018), employee performance is the work result achieved by an individual in carrying out tasks that can be measured through quality, quantity, effectiveness, and timeliness. Meanwhile, according to Lubis (2020), employee performance is work performance determined by ability, motivation, and a supportive organizational environment.

Employee Performance Indicators

According to Afandi (2018), employee performance indicators consist of:

1. Work Quality
2. Work Quantity
3. Timeliness
4. Procedure Compliance
5. Cooperation

Interpersonal Communication

According to Rahmawati (2018), interpersonal communication is the process of exchanging messages between two or more people directly with the aim of building understanding, coordination, and harmonious working relationships. Furthermore, according to Susanto (2020), interpersonal communication is an individual's ability to convey information, ideas, and feedback through face-to-face interaction to create harmony in the social and work environment.

Interpersonal Communication Indicators

According to Rahmawati (2018), interpersonal communication indicators consist of:

1. Openness
2. Empathy
3. Supportiveness
4. Positiveness
5. Equality

Work Ethic

According to Hidayat (2019), work ethic is a mental attitude reflected in responsibility, commitment, and sincerity of individuals in carrying out work to achieve optimal results. According to Suryani (2020), work ethic is a set of values and beliefs that encourage employees to work disciplinedly, be results-oriented, and value time in completing tasks.

Work Ethic Indicators

According to Hidayat (2019), work ethic can be measured through:

1. Discipline
2. Responsibility
3. Sincerity in Working
4. Results Orientation
5. Timeliness
6. Work Commitment

Compensation

According to Priyono (2018), compensation is a form of reward given by an organization to employees for time, effort, and contribution in achieving organizational goals. Meanwhile,

according to Prasetyo (2020), compensation is a reward in financial or non-financial form aimed at increasing employee motivation, satisfaction, and performance.

Compensation Indicators

According to Priyono (2018), compensation can be measured through:

1. Salary
2. Allowances
3. Incentives
4. Work Facilities
5. Social Security
6. Non-Financial Awards
   Recognition in the form of praise, certificates, or awards as a form of appreciation for performance.

Conceptual Framework

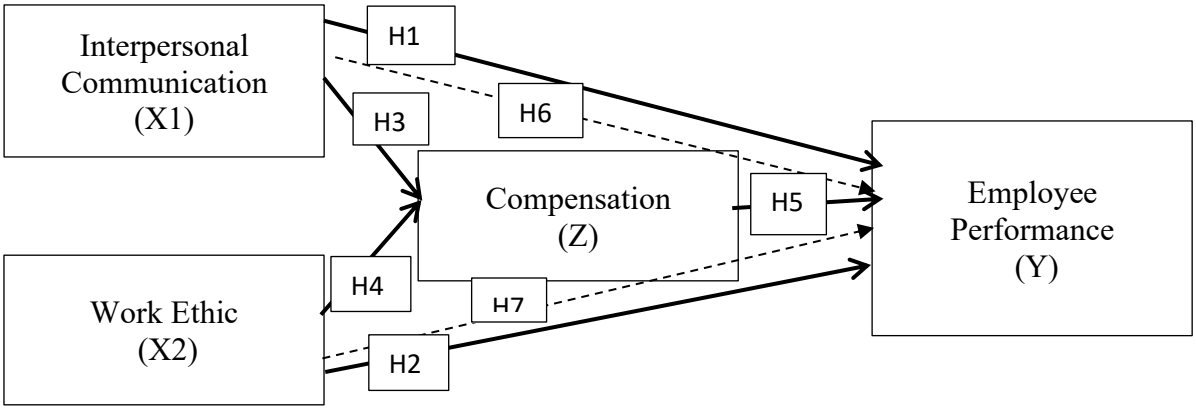

Figure 1. Conceptual Framework

Research Hypotheses

1. Interpersonal communication affects employee performance at the Regional Development Planning, Research and Innovation Agency of Asahan Regency.
2. Work ethic affects employee performance at the Regional Development Planning, Research and Innovation Agency of Asahan Regency.
3. Interpersonal communication affects the provision of compensation at the Regional Development Planning, Research and Innovation Agency of Asahan Regency.
4. Work ethic affects the provision of compensation at the Regional Development Planning, Research and Innovation Agency of Asahan Regency.
5. Provision of compensation affects employee performance at the Regional Development Planning, Research and Innovation Agency of Asahan Regency.
6. Provision of compensation mediates the effect of interpersonal communication on employee performance at the Regional Development Planning, Research and Innovation Agency of Asahan Regency.
7. Provision of compensation mediates the effect of work ethic on employee performance at the Regional Development Planning, Research and Innovation Agency of Asahan Regency.

Type and Approach of Research

According to Sugiyono (2019), quantitative research is a research method based on the philosophy of positivism, used to research specific populations or samples with the aim of testing predetermined hypotheses. The quantitative approach was chosen because this study aims to analyze the influence between variables in the form of numbers processed statistically.

Research Location

This research was conducted at the Regional Development Planning, Research and Innovation Agency of Asahan Regency.

Research Population and Sample

The population in this study were all employees of the Regional Development Planning, Research and Innovation Agency of Asahan Regency, totaling 40 people.

According to Sugiyono (2019), population is a generalization area consisting of subjects or objects that have specific qualities and characteristics determined by the researcher to be studied and conclusions drawn. The sample in this study is the entire population, which is 40 employees (saturated sample).

Data Collection Technique

The data collection technique in this study used a questionnaire instrument. According to Sugiyono (2019), a questionnaire is a data collection technique by giving a set of questions or statements to respondents to answer. The questionnaire in this study used a Likert scale to measure the research variables.

Data Analysis Technique

The data analysis technique used in this study is Structural Equation Modeling (SEM) based on Partial Least Square (PLS) with the assistance of SmartPLS software. SEM-PLS is a multivariate modeling approach capable of testing relationships between latent variables simultaneously, both in measurement relationships (outer model) and structural relationships (inner model).

According to Ghozali & Latan (2019), PLS-SEM is an analysis method used to develop predictive models and explain relationships between latent constructs, especially when the sample size is relatively small, indicator variables are formative or reflective, and data distribution does not have to be normal. PLS-SEM is also considered more flexible than covariance-based SEM because it does not require strict multivariate normality assumptions. Analysis using PLS-SEM is carried out through two main stages, namely:

1. Testing the Measurement Model (Outer Model)
   This stage is used to assess the validity and reliability of constructs through indicators that form latent variables. Outer model testing includes:
   a. Convergent Validity Measured through the Average Variance Extracted (AVE) value and Outer Loading, with AVE value ≥ 0.50 and loading ≥ 0.70.
   b. Discriminant Validity
      Measured through the Fornell-Larcker criterion and HTMT (Heterotrait-Monotrait Ratio).
   c. Construct Reliability Measured through Composite Reliability and Cronbach's Alpha, with CR value ≥ 0.70.
2. Testing the Structural Model (Inner Model)
   This stage is used to test the relationships between latent variables in the research model. Inner model evaluation is carried out through:
   a. R^2 (Coefficient of Determination) to see the explanatory power of independent variables on the dependent variable.
   b. Q^2 Predictive Relevance to see the predictive ability of the model.
   c. Path Coefficient & t-statistics through bootstrapping procedure to test hypothesis significance.
   d. Effect Size (f^2) to see the contribution of independent variables to the endogenous variable.

Through the SmartPLS approach, this research is able to analyze intervening variables effectively, including measuring direct effects, indirect effects, and total effects between latent constructs.

Results

Outer Model Analysis

The purpose of evaluating the outer model is to assess the validity and reliability of a given model. This analysis will be based on loading factors, AVE (Average Variance Extracted), discriminant validity, and composite reliability.

To understand the outer model analysis of this research, see the following figure:

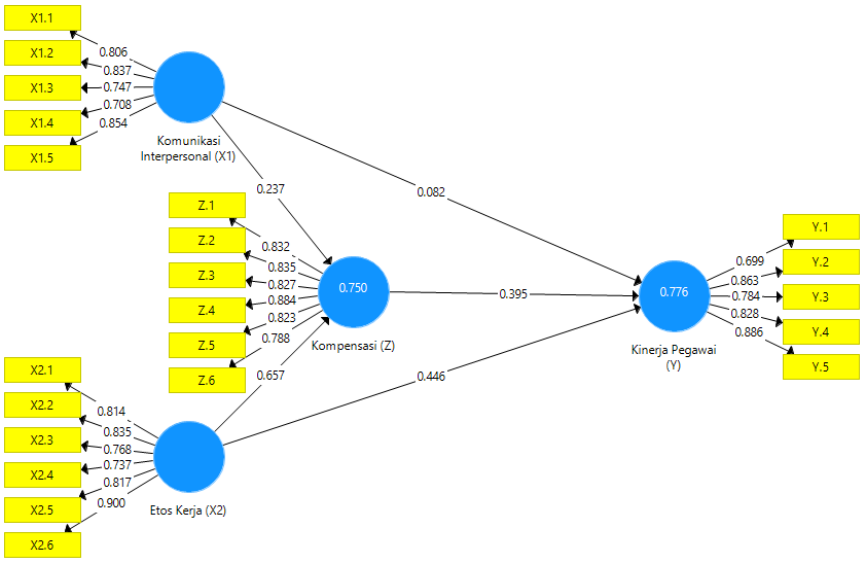

Figure 2. Outer Model

Source : Output Smart PLS 3.3.3

Looking at the diagram above, it can be seen that each variable has a loading factor for the latent variable and a loading factor of 0.7 for the manifest variables, this indicates that all indicators and loading factors are valid. The regression analysis for this research is as follows:

Substructure 1

Z = b1X1 + B2X2 + e1

Z = 0,237 + 0,657 + e1

For Substructure 2

Y = b2X1 + b2X2 + b5Z + e2

Y = 0,082 + 0,446 + 395 + e2

Table 1: Outer Loadings

	Work Ethic (X2)	Employee Performance (Y)	Compensation (Z)	Interpersonal Communication (X1)
X1.1				0,806
X1.2				0,837
X1.3				0,747
X1.4				0,708
X1.5				0,854
X2.1	0,814			
X2.2	0,835			
X2.3	0,768			
X2.4	0,737			
X2.5	0,817			

X2.6	**0,900**			
Y.1		**0,699**		
Y.2		**0,863**		
Y.3		**0,784**		
Y.4		**0,828**		
Y.5		**0,886**		
Z.1			**0,832**	
Z.2			**0,835**	
Z.3			**0,827**	
Z.4			**0,884**	
Z.5			**0,823**	
Z.6			**0,788**	

Source : Output Smart PLS 3.3.3

Based on Table 1 Outer Loadings, all indicators on the research variables have shown high loading factor values because they are above the feasibility limit of 0.70. In the Interpersonal Communication (X1) variable, loading values range from 0.708 to 0.854, where indicator X1.5 is the strongest in reflecting the variable. In the Work Ethic (X2) variable, outer loading values are in the range of 0.737 to 0.900. Indicator X2.6 has the most dominant contribution, while other indicators also meet the validity criteria. Furthermore, the Employee Performance (Y) variable has loading values between 0.699 and 0.886. Although there is one indicator slightly below 0.70, the value is still acceptable so it remains declared valid. In the Compensation (Z) variable, all indicators show excellent values ranging from 0.788 to 0.884. This indicates that each item is able to explain the measured construct. Thus, it can be concluded that all indicators on each variable have met the convergent validity requirements and are suitable for use in subsequent analysis.

Discriminat Validity

In addition, there is a discriminant validity test seen from the Fornell-Larcker Criterion values and the AVE values of each statement instrument on the reflective indicators in this study. Both tables are used to ensure that the variables in this study are valid.

Table 2. Discriminant Validity

	Work Ethic (X2)	**Employee Performance (Y)**	**Compensation (Z)**	**Interpersonal Communication (X1)**
X1.1	0,636	0,578	0,598	0,806
X1.2	0,626	0,636	0,636	0,837
X1.3	0,628	0,573	0,578	0,747
X1.4	0,683	0,595	0,625	0,708
X1.5	0,761	0,664	0,688	0,854
X2.1	0,814	0,660	0,673	0,775
X2.2	0,835	0,787	0,847	0,772
X2.3	0,768	0,659	0,633	0,572
X2.4	0,737	0,579	0,600	0,613
X2.5	0,817	0,722	0,601	0,664
X2.6	0,900	0,733	0,784	0,707
Y.1	0,614	0,699	0,604	0,562
Y.2	0,691	0,863	0,683	0,694
Y.3	0,670	0,784	0,690	0,598

Y.4	0,803	0,828	0,778	0,648
Y.5	0,674	0,886	0,651	0,627
Z.1	0,713	0,622	0,832	0,612
Z.2	0,741	0,721	0,835	0,701
Z.3	0,704	0,699	0,827	0,700
Z.4	0,840	0,739	0,884	0,702
Z.5	0,618	0,741	0,823	0,633
Z.6	0,644	0,675	0,788	0,593

Source : Output Smart PLS 3.3.3

Based on Table 2 Discriminant Validity, each indicator has the highest correlation value with the variable it measures compared to other variables. In Interpersonal Communication (X1), the highest values are in the range of 0.708-0.854. In Work Ethic (X2), the highest loading values range from 0.737-0.900. The Employee Performance (Y) variable shows a range of 0.699-0.886, while Compensation (Z) is between 0.788-0.884.

These findings confirm that each indicator better represents its own construct so that the model is declared to have met the discriminant validity criteria and is suitable for further analysis.

Composite reliability

In composite reliability study, each variable's reliability value is compared; if the variable value is greater than 0.60 then the research is considered reliable; if between 0.60 and 0.7, then it is not reliable; There are several blocks to determine whether the research is reliable, valid, or not. These include Cronbach's alpha, Composite Reliability, and AVE values which can be seen in the table below:

Table 3. Construct Reliability and Validity

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Work Ethic (X2)	**0,897**	**0,921**	**0,662**
Employee Performance (Y)	**0,871**	**0,907**	**0,664**
Compensation (Z)	**0,911**	**0,931**	**0,692**
Interpersonal Communication (X1)	**0,850**	**0,893**	**0,628**

Source : Output Smart PLS 3.3.3

Based on Table 3 Construct Reliability and Validity, all variables namely Interpersonal Communication (X1), Work Ethic (X2), Employee Performance (Y), and Compensation (Z) have Cronbach's Alpha values above 0.70 (0.850--0.911), composite reliability is also high (0.893--0.931), and AVE is above 0.50 (0.628--0.692). Thus, each construct is declared reliable and valid so it is suitable for use in subsequent analysis.

Coefficient of Determination (R2)

The R square test is used for the dependent variable to measure how well the model explains the variation of the dependent variable. (Ghozali, 2014 p.183). The output results of SmartPLS 3.0 software regarding R square are as follows:

Table 4. R Square Results

	R Square	Adjusted R Square

Employee Performance (Y)	0,776	0,767
Compensation (Z)	0,750	0,743

Source : Output Smart PLS 3.3.3

Based on Table 4 R Square Results, the R Square value for Employee Performance (Y) is 0.776 with an Adjusted R Square of 0.767. This means that the variation in employee performance can be explained by the independent variables in the model by 77.6%, while the remaining 22.4% is influenced by other factors outside the study. Meanwhile, Compensation (Z) has an R Square value of 0.750 and Adjusted R Square of 0.743. This shows that 75.0% of the variation in compensation can be explained by the variables in the model, while the other 25.0% is explained by other variables not studied.

Hypothesis Testing

After analyzing the inner model, the next step is to analyze the relationships between constructs, as hypothesized in this review. Specific analysis in this study was carried out by looking at T-Statistics and P-Values. Hypotheses are accepted if T-Statistics > 1.96 and P-Values < 0.05. The following are the results of the Path Coefficients (Direct Effects):

Table 5. Path Coefficients (Direct Effects)

	Original Sample (O)	**T Statistics (| O/STDEV |)**	**P Values**	**Results**
Work Ethic (X2) -> Employee Performance (Y)	0,446	3,495	**0,000**	**Accepted**
Work Ethic (X2) -> Compensation (Z)	0,657	7,186	**0,000**	**Accepted**
Compensation (Z) -> Employee Performance (Y)	0,395	3,793	**0,000**	**Accepted**
Interpersonal Communication (X1) -> Employee Performance (Y)	0,082	0,887	**0,188**	**Rejected**
Interpersonal Communication (X1) -> Compensation (Z)	0,237	2,539	**0,006**	**Accepted**

Source : Output Smart PLS 3.3.3

Here is the narrative of direct effects based on Table 5 Path Coefficients.

1. The effect of Work Ethic (X2) on Employee Performance (Y) has a coefficient of 0.446 with a T statistic of 3.495 and P value of 0.000. This result indicates a positive and significant influence, meaning the higher the work ethic, the employee performance will increase.
2. The effect of Work Ethic (X2) on Compensation (Z) obtained a coefficient of 0.657, T statistic of 7.186, and P value of 0.000. This means work ethic has a positive and significant effect on compensation.
3. Furthermore, Compensation (Z) on Employee Performance (Y) shows a coefficient of 0.395 with a T statistic of 3.793 and P value of 0.000. This means compensation has a positive and significant influence on improving employee performance.
4. In contrast, Interpersonal Communication (X1) on Employee Performance (Y) has a coefficient of 0.082, T statistic of 0.887, and P value of 0.188. Because the significance value is greater than 0.05, the effect is positive but not significant.

5. Meanwhile, the effect of Interpersonal Communication (X1) on Compensation (Z) has a coefficient of 0.237 with a T statistic of 2.539 and P value of 0.006. This indicates that interpersonal communication has a positive and significant effect on compensation.

Table 6. Path Path Coefficients (Indirect Effects)

	Original Sample (O)	T Statistic (| O/STDEV |)	P Values	Results
Work Ethic (X2) -> Compensation (Z) -> Employee Performance (Y)	0,260	3,416	**0,000**	**Accepted**
Interpersonal Communication (X1) -> Compensation (Z) -> Employee Performance (Y)	0,094	2,045	**0,021**	**Accepted**

Source : Output Smart PLS 3.3.3

6. The effect of Work Ethic (X2) on Employee Performance (Y) through Compensation (Z) shows a coefficient of 0.260 with a T statistic of 3.416 and P value of 0.000. Because the significance value is smaller than 0.05, this indirect effect is positive and significant, so the hypothesis is declared accepted.
7. The effect of Interpersonal Communication (X1) on Employee Performance (Y) through Compensation (Z) has a coefficient of 0.094, T statistic of 2.045, and P value of 0.021. This result also shows a positive and significant influence, so the hypothesis is declared accepted.

Conoclusion

1. Work ethic has a positive and significant effect on employee performance; the higher the work ethic, the employee performance increases.
2. Work ethic has a positive and significant effect on compensation; an increase in work ethic is followed by an increase in compensation.
3. Compensation has a positive and significant effect on employee performance; better compensation improves performance.
4. Interpersonal communication has a positive but not significant effect on employee performance; it has not been able to significantly improve performance.
5. Interpersonal communication has a positive and significant effect on compensation; the better the interpersonal communication, the compensation increases.
6. Work ethic has a positive and significant indirect effect on employee performance through compensation; compensation is able to mediate this relationship.
7. Interpersonal communication has a positive and significant indirect effect on employee performance through compensation; compensation mediates the relationship between interpersonal communication and employee performance.

Suggestions

1. Organizational leaders need to foster employee work ethic through guidance, role modeling, and providing clear work targets so that performance continues to increase.
2. Agencies are advised to pay attention to a fair compensation system that is appropriate to the workload because it is proven to be able to encourage improved employee performance.
3. Interpersonal communication still needs to be improved through regular coordination, evaluation, and teamwork so that its impact on compensation and performance can be more optimal.
4. Management is expected to design performance-based reward policies so that employees are encouraged to contribute their best.
5. The research results prove that work ethic and compensation have important roles in improving employee performance, so these findings can strengthen the development of

human resource management theory, especially regarding the relationship between work behavior and reward systems.

6. The role of compensation as a mediating variable indicates that future research models can consider other factors such as motivation, job satisfaction, or organizational commitment to enrich empirical studies.
7. The finding that interpersonal communication is not directly significant to performance opens opportunities for subsequent researchers to add moderator variables or use different methodological approaches.

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