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Exploring How Work Motivation and Non-Monetary Compensation Affect Employee Performance: Insights from a Packaging Section in a Chemical Company in Bandung

ABSTRACT

This research addresses the critical issue of how **motivation and indirect compensation** affect **employee performance** in a packaging division of a chemical company located in Bandung. The study aims to analyze these relationships and their implications for enhancing workplace productivity. To achieve this goal, the research employs a mixed-method approach, utilizing questionnaires, observations, and literature studies to gather relevant data. The analysis employs multiple linear regression techniques, supported by hypothesis testing through F-tests and T-tests, based on a sample of 53 respondents selected using incidental sampling. The findings reveal that both motivation and indirect compensation significantly influence employee performance, both individually and collectively, within the packaging division of the chemical company in Bandung. This study's implications suggest that organizations should prioritize enhancing **motivation and optimizing compensation strategies to improve employee performance** effectively. Additionally, the research contributes to the existing literature on workplace dynamics by providing empirical evidence of the importance of these factors in a specific industrial context, thereby offering valuable insights for managers and HR practitioners in similar sectors.

Keywords: Motivation, Indirect Compensation, Employee Performance.

INTRODUCTION

Intense competition in the business world is prevalent across various industries and services, including the pharmaceutical sector. In today's era of globalization, the pharmaceutical industry plays a vital role in human life. This importance ensures that household health needs are more easily met, contributing to overall well-being. Furthermore, the increasing health consciousness among the Indonesian population reflects a significant shift in awareness compared to previous times when many lacked such concerns. This emerging awareness is likely to give rise to new companies that will require general trading services to support their business activities. Research indicates that effective management of human resources in pharmacy departments during times of crisis, such as the COVID-19 pandemic, is crucial for navigating challenges and maintaining performance (Adam et al., 2021). Additionally, the adoption of Pharma 4.0 in Indonesia signifies a shift towards digitalization and core competency development, which is essential for staying competitive (Arief et al., 2022). Leadership styles, particularly laissez-faire leadership, also play a crucial role in talent management within the pharmaceutical industry, impacting overall organizational effectiveness (Ali & Ullah, 2023). Lastly, fostering a culture of innovation is vital for driving new product development performance, highlighting the importance of intellectual capital in achieving competitive advantage (Mehralian et al., 2024).

As we know, among the various factors mentioned, we believe that the most crucial element for winning competition is human resources. People possess talent, creativity, innovation, and motivation, which, when effectively directed by the company, can lead to optimal achievements for organizational success. (Foster & Sidharta, 2019) The exceptional capabilities of a

company's human resources serve as a primary asset in navigating modern competition. Therefore, companies must focus on developing skilled and reliable personnel to excel in an increasingly competitive landscape. Human resources are the key drivers determining the success of organizational activities. The demand for companies to acquire, develop, and retain quality human resources becomes more urgent in line with the ever-changing dynamics of the environment. (Hadian, 2018) Change must receive support from top management as an essential first step to enhance performance and achieve corporate goals. Employees remain a vital component of any organization, as even with new technologies, companies cannot effectively leverage and optimize these advancements without the backing of skilled human resources. (Nuryuladin, et al. 2024)

Recognizing the importance of human resources, every company should empower its workforce to optimize performance, and one effective method for assessing human resources is through performance evaluations. Performance reflects the quality and quantity of work achieved by human resources over a given period while fulfilling their assigned responsibilities. Achieving optimal output is one of the primary objectives of any organization or company. To enhance performance, employees require not only internal motivation but also external encouragement, which organizations should provide. This support fosters a desire within employees to achieve meaningful success, motivating them to focus not only on personal achievements but also on contributing their best efforts towards the success of the organization they are part of.

Optimal employee performance is essential for every company, as it reflects the organization's ability to manage and allocate its workforce effectively. Based on preliminary research conducted by the investigator in a central division of the company, specifically in packaging, it is clear that personnel in this area significantly influence consumer satisfaction. In packaging, the quality checks for infusion products, including leak tests and visual inspections, determine whether items are deemed fit for sale. Even slight errors in this process can lead to consumer dissatisfaction with products, ultimately affecting the company's reputation. Therefore, it is crucial for the company not only to ensure high-quality products but also to maintain optimal performance from operators and the entire packaging team, as their contributions are vital for the company's future success. Employee performance can be assessed through performance evaluations, which occur annually, including assessments for the packaging division based on performance indicators such as work quantity, work quality, and attendance. These three aspects guide the company in determining the annual performance ratings achieved by packaging employees.

Based on the investigator's initial observations, there is evidence that the performance of the packaging team is not yet optimal, as the operators are not meeting the company's packaging targets. A gap exists between the company's objectives and the actual performance on the ground, where packaging operators frequently fail to fulfill the set targets, highlighting the need for attention from management to implement improvement efforts. On the ground, the quantitative indicators show that packaging operators are unable to complete the amount of work projected by the company. Similarly, the quality of work is deemed subpar, as packaging employees struggle to meet targets in accordance with standard operating procedures (SOPs), both in terms of the time taken for packaging tasks and the outputs produced, which often vary and lead to frequent customer complaints. From this analysis, it can be concluded that the performance of the packaging employees still requires significant improvement.

Motivation is the internal state of an individual that drives the desire to engage in specific activities to achieve a goal. This drive significantly influences employees' attitudes towards their work. When motivated, an employee feels a special urge to complete tasks, contributing

to the effectiveness of the organization. A highly motivated employee is capable of performing their duties effectively and achieving good performance. Motivation reflects how individuals carry out their essential roles and functions, making it crucial to instill motivation in employees as it ignites their enthusiasm to work and produces optimal results. However, motivating employees can be complex, involving both individual and organizational factors. Employees' motivations can vary based on their education level and economic conditions. For instance, individuals who are more educated and economically independent often find their motivation sources to be diverse, not solely based on traditional motivators like formal authority and incentives, but also influenced by various other needs. Observations in this company reveal that managers have not provided appropriate incentive-based motivation to the packaging team, leading to suboptimal performance.

Motivation is a dynamic condition that reflects employees' needs while working and fulfilling their tasks, encompassing physiological needs, security needs, social needs, esteem needs, and self-actualization needs. It results from the desire to achieve specific outcomes and encompasses the belief that one's actions will lead to desired results; in other words, motivation significantly influences employee performance outcomes. There is a positive relationship between work motivation and performance achievements, as individuals, whether employees or managers, with high work motivation tend to exhibit high performance, while low performance may indicate low motivation. Therefore, effectively applying appropriate motivational strategies can lead to improved employee performance. Additionally, another factor suspected to contribute to the suboptimal performance of the packaging team is the inadequate non-monetary compensation they receive. This lack of appreciation is evident from the absence of bonuses or additional benefits when packaging employees meet their targets on time, as reported in direct interviews with several packaging workers. Thus, the researcher hypothesizes that this suboptimal non-monetary compensation also plays a role in the underperformance of packaging employees. Compensation encompasses all forms of monetary and non-monetary income received by employees in exchange for their services to the company, meaning that a strong compensation system will impact strategic performance positively. Since packaging employees receive little recognition through bonuses and incentives upon meeting their targets, it can be concluded that their compensation remains insufficient.

Motivation plays a crucial role in driving individuals to achieve specific goals, significantly influencing employees' attitudes and performance. Several studies demonstrate that employee motivation not only relates to their satisfaction with the compensation they receive but also affects their contributions to customer value creation (Amin et al., 2024). Effective compensation practices can enhance employee engagement and motivation, even during crises such as the COVID-19 pandemic (Jeha et al., 2022). Additionally, employees' perceptions of the compensation system can impact their turnover intentions and job performance, with communication satisfaction serving as a moderating factor (Ohunakin & Olugbade, 2022). Further research reveals that comparing salaries among employees can influence their motivation and perceptions of the compensation they receive (Lu & Niu, 2022). Lastly, the interaction between leniency in performance evaluations and the precision of performance measurement contributes to employee effort and performance, highlighting the complex factors that can affect motivation and performance (Li et al., 2024).

Motivation and compensation positively impact employee performance, emphasizing the importance of work motivation as a critical focus for company managers, given its significant role in enhancing performance. Research indicates that compensation and work environment influence employee performance by acting through work motivation (Savira et al., 2024). Additionally, enabling performance measurement can boost managers' autonomous work

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motivation, thereby improving their performance (Van der Hauwaert et al., 2022). Studies also highlight that both desire and organizational climate are essential factors affecting performance, particularly in specific sectors such as state-owned enterprises in Indonesia (Syaifuddin & Sidharta, 2017). Furthermore, motivation, abilities, and role perception significantly affect employee performance, with contextual factors serving as moderators in public agencies (Manik & Sidharta, 2017). Lastly, intrinsic and extrinsic motivations, alongside organizational context, contribute to employee satisfaction, performance, and their intention to remain with the company, indicating a multifaceted relationship between these elements (Mardanov, 2021).

Compensation is closely related to employee performance, as higher indirect compensation tends to enhance employee effectiveness. Studies show that pay-for-performance strategies can improve job performance, with procedural justice playing a significant role in facilitating organizational citizenship behavior (Gupta et al., 2024). In addition, the effects of leniency in performance evaluations and the precision of performance measurement interact to influence both employee effort and overall performance, highlighting the importance of fair assessment practices (Li et al., 2024). Moreover, effective compensation practices not only foster employee engagement but also enhance motivation, even during challenging times such as the COVID-19 pandemic (Jeha et al., 2022). These findings underline the significance of robust compensation strategies in driving employee performance and engagement.

The research gap in this study lies in the limited understanding of how work motivation and non-monetary compensation affect employee performance across diverse contexts. While many studies have primarily focused on financial compensation, there is a scarcity of attention given to the impact of non-monetary rewards and how they interact with work motivation to influence performance. Therefore, it is essential to explore these variables more comprehensively within various sectors and organizational cultures. The study aims to deepen our understanding of the factors influencing employee performance, providing valuable insights for managers and practitioners in designing more effective strategies.

METHOD

Methods involve scientific approaches to gather data for specific purposes and applications. It is essential to focus on four key terms: scientific approach, data, purpose, and specific utility. This type of research is classified as descriptive quantitative research, which involves data that is collected and expressed numerically. The quantitative research process is deductive, using concepts or theories to answer research questions, thus allowing for the formulation of hypotheses. Quantitative research methods are grounded in positivist philosophy and are utilized to study particular populations or samples. Data collection is conducted using research instruments, and data analysis employs quantitative or statistical techniques aimed at testing established hypotheses. Additionally, qualitative data can complement the descriptive aspect of the research, such as the words structured in questionnaires or dialogue from consultations and interviews between the researcher and informants. The qualitative research process is inductive, starting with empirical facts rather than deducing from theory.

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The population refers to the general area of study consisting of objects or subjects that possess specific qualities and characteristics defined by the researcher for analysis and conclusion drawing. In this study, the population comprises 108 employees from the packaging division of a chemical company located in Bandung. A sample represents a portion of the population's size and characteristics. When the population is large, it is often impractical for researchers to study every individual due to limitations such as funding, manpower, and time;

thus, researchers can select a sample from that population. Conclusions drawn from the sample will be applicable to the wider population. In this research, the sample consists of employees working in the packaging division of a chemical company in Bandung. The respondents in this study are employees from this division. A sample is defined as a subset or representative of the population under investigation. Based on this definition, it can be concluded that a sample represents the population's characteristics being studied. If the research population is less than 100 individuals, the sample would include everyone; however, if the population exceeds 100, the sample can range from 10-15% or 20-25%.

Since data collection is carried out using a questionnaire, the sincerity of respondents in answering the questions is crucial for the research. The validity and reliability of social research results depend significantly on the measurement tools employed. If the measurement tools used are not valid or trustworthy, the research findings will not accurately reflect the actual situation. To address this issue, two types of tests are necessary: validity testing and reliability testing, which will evaluate the sincerity of responses from 53 participants.

Before the questionnaire is used, ¹⁰ validity and reliability tests are conducted. The validity test aims to determine whether the instrument employed is appropriate and effectively measures what it is intended to measure. Consequently, validity testing is performed on the items within the questionnaire. Validity defines the degree of accuracy between the actual data from the research subjects and the data reported by the researcher. There are two types of validity: internal validity, which pertains to the accuracy of the research design in relation to the outcomes achieved, and external validity, which concerns the extent to which the research findings can be generalized or applied to the broader population from which the sample was drawn. Reliability testing assesses the consistency of results obtained using the same object, ensuring that repeated ¹¹ measurements yield similar data. To test reliability using the split-half method, the items are divided into two groups: odd-numbered items and even-numbered items. Each group's item scores are then summed to produce total scores. If the correlation is 0.7 or higher, the item is considered to have an adequate level of reliability; conversely, if the correlation falls below 0.7, the item is deemed less reliable.

RESULT and DISCUSSION

Validity and reliability testing is crucial when evaluating instruments used in this research. The validity test measures how well the instrument accurately assesses the variables, while the reliability test assesses the consistency of the research instrument. An instrument is deemed valid if items show a positive correlation with the total score and exhibit a high correlation, indicating high validity for those items. The minimum criterion for an item to be considered valid is an R critical value ¹² 0.300. Therefore, if 71%, 23%, and 6% of the frequency falls into ¹³ usage categories of 1-2 times, 3-5 times, and more than 5 times, respectively, and the correlation between items and the total score is less than 0.300, then those items are not valid. In the split-half reliability testing, a research instrument is considered reliable when it achieves a positive reliability coefficient greater than 0.700 or 70%, indicating higher consistency and reliability as the value increases. The following presents the results of the validity and reliability tests for each statement item across variables:

Table 1. Result of Validity and Reliability testing

No	Work Motivation	Indirect Compensation	Employee Performance
1	0,723	0,627	0,740
2	0,744	0,617	0,565
3	0,677	0,611	0,814
4	0,855	0,629	0,826
5	0,745	0,684	0,585
6	0,792	0,393	0,712
7	0,708	0,679	0,814
8	0,738	0,769	0,811
9	0,801	0,851	0,830
10	0,909	0,849	0,644
11	0,815	0,703	0,720
12	0,779	0,701	0,728
13	0,829	0,767	0,762
14	0,789	0,746	0,743
15	0,838	0,666	0,705
Cronbach's Alpha	0,954	0,962	0,972

The instrument statements for the variables consist of 15 items from each variable. The results of testing these variables meet the required criteria, indicating scores above 0.300. Thus, it can be concluded that statements 1 to 15 are valid and suitable for processing as research data. The reliability test results confirm that all variables fall into the reliable category, as their scores exceed 0.700. Therefore, the research instruments used for each variable in this study can be considered reliable and truly function as dependable measurement tools, exhibiting a high level of stability. This means that if the instrument is tested repeatedly, the results will remain consistent.

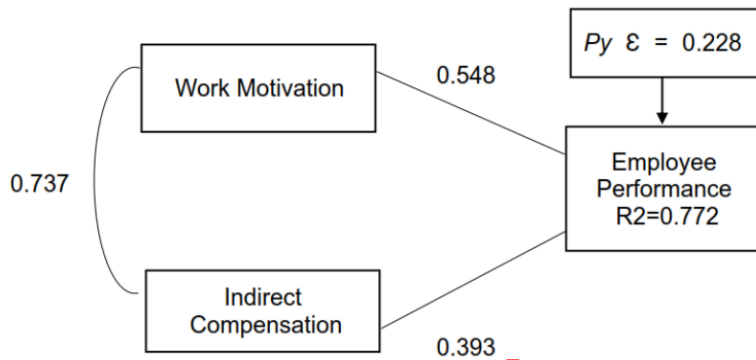


Figure 1. A Pathway Diagram Illustrating the Impact of Motivation and Indirect Compensation on Employee Performance.

Figure 1 illustrates the model depicting the relationships between work motivation, indirect compensation, and employee performance. According to the diagram, both work motivation and indirect compensation contribute to enhancing employee performance, albeit with varying degrees of impact. In the model presented, work motivation exerts a strong direct influence on employee performance, reflected by a coefficient value of 0.548. This indicates that as employees' levels of work motivation increase, their performance improves correspondingly. High work motivation encourages employees to commit more fully to their tasks, boost productivity, and take greater responsibility for their assigned duties. Work motivation can be strengthened through various factors, such as recognition of work achievements, performance-based incentives, and a conducive work environment. Additionally, opportunities for personal growth and relevant training can also enhance employees' motivation in their roles. Therefore, companies need to design effective strategies to elevate employee motivation to achieve optimal performance.

Indirect compensation, with a coefficient of 0.393 in this model, significantly influences employee performance and is crucial in determining performance levels. While its impact is lower than that of work motivation, indirect compensation still plays a vital role in ensuring employee welfare and enhancing job satisfaction. This type of compensation includes various additional benefits provided by the company, such as health allowances, insurance, paid leave, and retirement programs. Offering fair and competitive indirect compensation can boost employee loyalty and foster a more stable and productive work environment. When employees feel that their well-being is prioritized, they are more likely to be motivated to perform well and contribute effectively to the organization.

Figure 1 also highlights the correlation between work motivation and indirect compensation, which has a coefficient value of 0.737. This indicates a strong relationship between the two variables, suggesting that an increase in indirect compensation can enhance work motivation. In other words, when employees receive good additional benefits, their motivation to work improves. For example, providing adequate health facilities or education allowances can elevate their work enthusiasm. Therefore, it is essential to adopt a holistic approach in human resource policies by integrating work motivation programs that align with the provision of indirect compensation.

The model depicted in the figure has an R-square value (R^2) of 0.772 for employee performance, indicating that work motivation and indirect compensation together account for 77.2% of the variation in employee performance. The remaining 22.8% is attributed to other factors not included in this model, such as work environment, organizational culture, leadership, and personal characteristics of the employees. The residual factor of 0.228 suggests that there are still other variables that could influence employee performance. Therefore, further research could explore additional factors that might enhance the understanding of the primary determinants of employee performance.

Based on the analysis of this model, several managerial implications can be applied to boost employee performance. First, improving work motivation is essential: companies can implement policies that focus more on performance-based incentives, enhance career advancement opportunities, and create a more supportive work culture to increase employee motivation. Additionally, enhancing benefits like health allowances, life insurance, and work flexibility can significantly improve employee well-being, which in turn positively impacts their motivation and performance. Given the relationship between work motivation and indirect compensation, companies should develop a more integrated strategy in managing human resources. Combining these factors can foster a more productive and conducive work environment.

Figure 1 clearly illustrates the relationship between work motivation, indirect compensation, and employee performance. Work motivation has a greater impact than indirect compensation on enhancing employee performance. However, both factors are interconnected and can be reinforced through appropriate company policies. By understanding this relationship pattern, companies can develop more effective strategies to boost employee motivation and well-being, ultimately leading to optimal performance.

The findings of this research indicate that both motivation and compensation significantly affect employee performance. Data analysis shows that the combined direct impact of motivation and compensation accounts for over half of the observed variability in performance. This suggests that higher levels of motivation and improved compensation are likely to lead to a notable increase in employee performance. The findings from this research highlight that both motivation and compensation are critical factors influencing employee performance. Savira et al. (2024) found that not only does compensation impact performance, but the work environment also plays a significant role, particularly through the mediation of work motivation. Similarly, Van der Hauwaert et al. (2022) demonstrated that enabling performance measurement directly affects managers' autonomous work motivation and their overall performance. Syaifuddin and Sidharta (2017) emphasized the importance of desire and organizational climate in determining employee performance within state-owned enterprises in Indonesia. Furthermore, Manik and Sidharta (2017) analyzed how motivation, ability, and role perception affect employee performance, with situational factors serving as moderating influences in public agencies. Lastly, Mardanov (2021) explored the interplay between intrinsic and extrinsic motivation, organizational context, and employee satisfaction, showcasing how these elements collectively contribute to performance and retention intentions.

The contribution of motivation and compensation to employee performance is evidenced by a substantial determination coefficient, emphasizing the importance of these factors in promoting productivity and work effectiveness. Nonetheless, there are still other factors not examined in this study that could also influence employee performance, as indicated by the residual value. External factors such as the work environment, leadership, organizational culture, and work-life balance may also play a role in affecting variations in employee performance. Compensation is closely linked to employee performance. When a company

provides appropriate compensation, whether financial or non-financial, employee motivation increases, which ultimately has a positive impact on their performance. In other words, compensation serves not only as a form of appreciation for employees but also as a tool for enhancing work motivation.

The research emphasizes the significant role of motivation and compensation in enhancing employee performance, as supported by a strong determination coefficient. Jeha et al. (2022) highlighted that effective compensation practices during the COVID-19 pandemic play a vital role in improving employee engagement and motivation. Ohunakin and Olugbade (2022) further explored how employees' perceptions of compensation systems impact their turnover intentions and job performance, finding that communication satisfaction moderates this relationship. Additionally, Lu and Niu (2022) investigated the effects of salary comparisons among employees within state-owned enterprise groups and how these perceptions influence performance dynamics. Li et al. (2024) examined how the leniency of performance evaluations and the precision of performance measurements interact to affect employee effort and performance. Finally, Amin et al. (2024) discussed how employee motivation shapes attitudes and behaviors towards customer value co-creation, with job position acting as a moderating factor.

This finding reinforces the notion that strategies aimed at improving employee performance must adopt a comprehensive approach. Companies should not only focus on boosting motivation but also ensure that the compensation systems in place meet the needs and expectations of their employees. By combining effective motivation with adequate compensation, organizations can cultivate a supportive work environment, enhance job satisfaction, and encourage employees to contribute more fully towards achieving the company's goals.

CONCLUSION

The conclusions drawn from this study indicate that **work motivation and indirect compensation** significantly impact **employee performance**. High levels of work motivation encourage employees to commit more fully to their tasks, boost productivity, and contribute more effectively to the company's goals. Motivated employees tend to exhibit better work enthusiasm, maintain high loyalty, and strive to meet the targets set by the organization.

Moreover, indirect compensation plays a crucial role in enhancing employee performance. Various forms of compensation, such as health benefits, comfortable work conditions, and other non-financial incentives, provide a sense of security and job satisfaction for employees. With adequate compensation in place, employees feel valued and recognized for their contributions, ultimately leading to greater loyalty and dedication to the organization.

This study also reveals that the combination of **work motivation and indirect compensation** can foster a more positive and conducive work environment. When companies provide the right motivational support and compensation that aligns with employees' needs, optimal work results can be achieved. These factors illustrate that organizations that prioritize employee well-being not only enhance individual performance but also strengthen the overall competitiveness of the company.

Therefore, it can be concluded that enhancing work motivation and providing appropriate indirect compensation are effective strategies for encouraging better employee performance. Companies should continually assess and develop policies that maintain and boost employee morale, whether through recognition, career development, or providing facilities that support

productivity. With a focus on employee well-being, companies are expected to improve their operational effectiveness and efficiency, enabling them to achieve sustainable growth.

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