

## The Influence of Organizational Culture and Compensation on Employee Performance with Work Motivation as an Intervening Variable at PT XYZ

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**Abstrak.** Dengan motivasi kerja bertindak sebagai variabel intervening, penelitian ini berupaya mengevaluasi dan menguji pengaruh budaya organisasi dan kompensasi terhadap kinerja karyawan di PT XYZ. Variabel dependennya adalah kinerja karyawan dan motivasi kerja, sedangkan variabel independennya adalah budaya organisasi dan kompensasi. Penelitian ini menggunakan strategi pengumpulan data yang melibatkan penyampaian kuesioner kepada 165 pekerja PT XYZ. Menggunakan data primer, metodologi penelitian bersifat kuantitatif dan asosiatif, dan Structurally Equitonal Modeling (SEM) dengan PLS 4 adalah model analisis data yang digunakan. Temuan penelitian ini menunjukkan bahwa, dengan nilai koefisien sebesar 0,364, budaya organisasi memiliki pengaruh positif dan signifikan terhadap kinerja karyawan; kompensasi berpengaruh positif dan signifikan terhadap kinerja karyawan dengan nilai koefisien sebesar 0,247; budaya organisasi berpengaruh positif dan signifikan terhadap kinerja karyawan melalui motivasi kerja dengan nilai koefisien sebesar 0,155; dan kompensasi berpengaruh positif dan signifikan terhadap kinerja karyawan melalui motivasi kerja dengan nilai koefisien sebesar 0,140. Kinerja karyawan dipengaruhi secara positif dan signifikan oleh motivasi kerja, sebagaimana ditunjukkan oleh nilai koefisien sebesar 0,354.

**Kata kunci:** Budaya Organisasi; Kompensasi; Motivasi Kerja dan Kinerja Karyawan.

**Abstract.** With work motivation acting as an intervening variable, this study attempts to evaluate and examine the effects of organizational culture and compensation on employee performance at PT XYZ. The dependent variables are employee performance and work motivation, whereas the independent variables are organizational culture and compensation. The research employed a data gathering strategy that involved delivering questionnaires to 165 workers of PT XYZ. Using primary data, the study methodology is quantitative and associative in character, and Structurally Equitonal Modeling (SEM) with PLS 4 is the data analysis model utilized. The findings of this study demonstrate that, with a coefficient value of 0.364, organizational culture has a positive and significant impact on employee performance; compensation positively and significantly affects employee performance with a coefficient value of 0.247; organizational culture positively and significantly affects employee performance through work motivation with a coefficient value of 0.155; and compensation positively and significantly affects employee performance through work motivation with a coefficient value of 0.140. Employee performance is positively and significantly impacted by work motivation, as indicated by the coefficient value of 0.354.

**Keywords:** Organizational Culture; Compensation; Work Motivation and Employee Performance.

## Introduction

Global competition today has intensified business rivalry among companies striving to grow and survive amid ongoing global crises. A company's progress is influenced by both internal and external factors. Organizations that can adapt to change and meet evolving demands are more likely to achieve their goals. One of the most complex challenges in achieving organizational goals lies in managing human resources, who play a central role in utilizing other production factors such as raw materials, equipment, capital, and the work environment. Human resources are a vital asset that must be managed effectively, as they drive the functionality of all other company resources. Productive and motivated employees contribute to efficiency and organizational performance. High work motivation leads to greater employee dedication and performance, while low motivation results in poor morale, lack of persistence, and difficulty completing tasks. Performance reflects the achievements or success levels of individuals or organizations over a given period. It requires proper management efforts to improve and optimize employee potential. Performance-based management involves planning, measurement, evaluation, and feedback to achieve organizational goals.

Effective human resource management is crucial for sustaining growth and competitiveness. Initial observations indicate a performance decline among employees at PT XYZ, as reflected in the company's performance evaluation data. Prior studies by Graha and Raharjo (2016) demonstrated that competency and organizational culture work together to significantly and favorably affect employee performance. Employees that work for a corporation are directly impacted by organizational culture, even if it has no direct effect on the manufacturing process itself. Therefore, in order to enhance employee performance, efforts should be made to establish a positive and supportive organizational culture. It is believed that PT XYZ employees' lack of passion at work is the reason behind their poor performance. According to Robbins and Judge (2016),

motivation is a process that explains an individual's intensity, direction, and perseverance in reaching goals. Several workers claim that their motivation to compete and do their best work has decreased as a result of the lack of awards for accomplishments like Best QCD, Best QCC, and Best Conveyor. This suggests that motivation at work is a key factor in performance, particularly when employee requirements increase in response to contemporary pressures. In line with Wahyuningsih (2018), who found that motivation significantly influences performance, motivation remains a strong determinant of productivity. Moreover, performance is closely linked to organizational culture, which serves as a set of shared values and behavioral norms that influence how employees act (Schein, 2010). A positive and productive culture can enhance employees' potential and improve company competitiveness. However, observations show that the existing organizational culture at PT XYZ lacks the ability to motivate employees effectively, as seen in the rising number of product defects and claims, which negatively impact operational efficiency. This is consistent with Erik Putra (2016), who emphasized that organizational culture and compensation significantly affect employee performance.

Compensation, defined as all forms of financial and non-financial rewards given to employees for their contributions (Dessler, 2014), also plays a vital role. Fair and motivating compensation not only encourages better performance but also enhances employee loyalty. However, several employees at PT XYZ have expressed dissatisfaction with the compensation system, citing reduced end-of-year bonuses and limited recognition programs, which further demotivate them. Other important factors influencing performance include employee competence and leadership style. Competence refers to the skills and abilities required to perform tasks effectively, while leadership style refers to the way leaders influence and guide their team. Observations suggest that both are not optimal many employees lack updated skills, and the leadership approach has not been effective in fostering motivation. Based on initial observations, three main issues contribute to suboptimal employee performance: (1)

organizational culture is not fully implemented, (2) compensation does not meet employee expectations, and (3) motivation remains low. These conditions lead to the conclusion that employee performance at PT XYZ is being affected by weak organizational culture, inadequate compensation, and insufficient work motivation. These issues indicate that employee performance at PT XYZ is not yet optimal, possibly due to weak organizational culture, inadequate compensation, and low motivation. Therefore, this study adopts the title: “The Influence of Organizational Culture and Compensation on Employee Performance with Work Motivation as an Intervening Variable at PT XYZ.”

### Research Methodology

The objective of this study was to investigate the correlations between several factors, including both direct and indirect impacts, using a quantitative research technique and an associative analytical method. Using work motivation as a mediating variable, the goal of this strategy is to test theories on how company culture and pay affect employee performance. Because of their ability to yield quantifiable, statistically sound data that may be extrapolated to a larger population, quantitative approaches were chosen. Structured questionnaires were distributed to 165 PT XYZ workers in order to collect primary data. A Likert scale was used in the questionnaire's design, and it was organized to collect answers pertaining to each of the variables being examined.

To ensure that the sample accurately represented the population of interest, the study employed a purposive sampling technique, selecting respondents who met predefined criteria, such as tenure, employment status, and relevance to the operational departments of the company. This method was appropriate for targeting individuals who were most likely to provide reliable and informed responses regarding the organizational context. To analyze the data collected, the study utilized Structural Equation Modeling (SEM) through the SmartPLS version 4 software. SEM was chosen due to its robustness in examining

complex causal relationships, particularly those involving latent constructs and intervening variables. It allows for simultaneous analysis of multiple dependent and independent variables, offering a comprehensive view of both direct effects (e.g., from organizational culture to employee performance) and indirect effects (e.g., from compensation to performance through motivation). In addition to evaluating the outer model (validity and reliability of indicators) and the inner model (path coefficients and significance testing), this method also enabled the researcher to assess the overall fit of the model, providing insight into how well the proposed conceptual framework reflects the actual data. The decision to use SEM-PLS was further justified by the exploratory nature of the research and the relatively moderate sample size, as PLS-SEM does not require strict assumptions about data distribution. Overall, this methodological approach provided a systematic and rigorous foundation for examining the hypothesized relationships and contributed to the validity of the research findings.

### Results and Discussion

#### Results

In PLS analysis, the outer model serves as a tool for evaluating the reliability of the connections between latent variables and their indicators. The association between the latent variables and the indicators that stand in for the constructs is the main emphasis of this model (Hair, 2023).

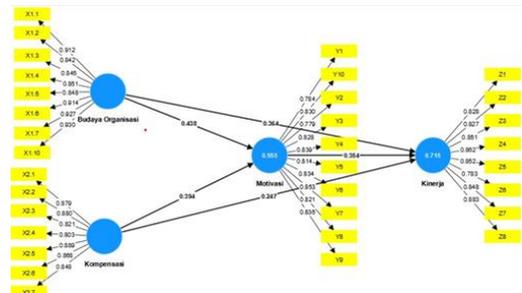


Figure 1. Outer Model

To make sure that the indicators appropriately reflect the hidden factors, it is important to first evaluate the validity and reliability of concepts (Hair *et al.*, 2023). While reliability measures like Cronbach's alpha and composite reliability are

used to assess the indicators' internal consistency, convergent validity is assessed using the Average Variation Extracted (AVE), which shows how much variation is captured by the construct in relation to measurement

error. These requirements are accomplished, increasing the reliability of the measurement plan and the study's overall conclusions.

Table 1. Reliability and Validity

	<i>Cronbach's alpha</i>	<i>Composite reliability</i>	<i>Average variance extracted (AVE)</i>
Organizational Culture	0.946	0.957	0.955
Employee Performance	0.941	0.942	0.951
Compensation	0.939	0.940	0.950
Work Motivation	0.947	0.948	0.954

The validity and reliability test results for each study variable are displayed in Table 1. High internal consistency is shown by Cronbach's alpha values for Organizational Culture (0.946), Employee Performance (0.941), Compensation (0.939), and Work Motivation (0.947), all of which are above the 0.7 cutoff. Hair and associates (2023). Additionally, each variable's composite reliability values are greater than 0.7, indicating that the indicators employed reliably represent the corresponding constructs (Henseler *et al.*, 2015). Furthermore, all variables' Average Variance Extracted (AVE) values are greater than 0.5, indicating appropriate convergent validity that is, each

concept accounts for more than half of the variance in its indicators. Thus, all variables in this study meet the requirements for reliability and validity. The inner model in PLS analysis serves as a tool to evaluate the relationships between latent variables themselves. This model focuses on assessing the strength and significance of the structural paths, showing how the constructs influence one another within the research framework. In PLS analysis, R Square shows the variance explained by the model, According to Hair *et al.* (2023), these metrics are essential for assessing the strength and quality of the structural model.

Table 2. R Square

	R Square	R Square Adjusted
Employee Performance	0.715	0.713
Work Motivation	0.555	0.553

The study's dependent variables' R Square and Adjusted R Square values are shown in Table 2. Employee Performance's R Square score is 0.715, meaning that the independent variables and the mediating variable in the model account for 71.5% of the variation in employee performance. At 0.713, the Adjusted R Square score, which takes into consideration the number of predictors in the model, is marginally lower. Likewise, the independent factors account for 55.5% of the variation in work motivation, as indicated by the R Square value of 0.555 for work motivation. Workplace

motivation has an Adjusted R Square of 0.553. The model's significant explanatory ability, especially in forecasting employee performance, is indicated by these results. In addition to R Square, F Square is used to assess the effect size of each exogenous construct on the endogenous variable. A higher F Square value indicates a substantial contribution of an independent variable to the R Square of a dependent variable, thereby supporting the relevance and significance of each path in the model (Hair *et al.*, 2023).

Table 3. F Square

	Organizational Culture	Employee Performance	Compensation	Work Motivation
Organizational Culture		0.233		0.275
Employee Performance			0.112	
Compensation				0.223
Work Motivation		0.196		

The effect size of each exogenous construct on the endogenous variables is shown by the F Square ( $f^2$ ) values in Table 3. Hair *et al.* (2023) state that tiny, medium, and high effect sizes are represented by  $f^2$  values of 0.02, 0.15, and 0.35, respectively. The findings indicate that work motivation ( $f^2 = 0.275$ ) and employee performance ( $f^2 = 0.233$ ) are somewhat impacted by organizational culture. While compensation has a medium impact on work motivation ( $f^2 = 0.223$ ), work motivation has a small-to-medium impact on employee performance ( $f^2 = 0.196$ ). Finally, there is a slight correlation between employee performance and compensation ( $f^2 = 0.112$ ). These results demonstrate how corporate culture and motivation-related factors significantly influence employee outcomes in the model. It is also important to evaluate the overall model fit to determine how well the hypothesized model represents the observed data. In the context of structural equation modeling, common fit indices include the

Standardized Root Mean Square Residual (SRMR), Normed Fit Index (NFI), and Chi-Square/df ratio. A model is considered to have a good fit when SRMR is below 0.08. Achieving a good model fit supports the robustness of the structural model and enhances the credibility of the study's findings.

Table 4. Model Fit

	Saturated Model	Estimated Model
SRMR	0.047	0.047

As presented in Table 4, the SRMR value for both the saturated model and the estimated model is 0.047. Since this value is well below the recommended threshold of 0.08, it indicates that the proposed model has a good fit with the observed data. This finding supports the adequacy of the structural model in representing the relationships among the latent variables under study.

Table 5. Direct and Indirect Hypothesis Analysis

	Original Sample	T Statistics	P Values
Organizational Culture → Employee Performance	0.364	3.185	0.001
Organizational Culture → Work Motivation	0.438	4.456	0.000
Compensation → Employee Performance	0.247	2.919	0.004
Compensation → Work Motivation	0.394	4.035	0.000
Work Motivation → Employee Performance	0.354	3.038	0.002
Compensation → Work Motivation → Employee Performance	0.140	2.575	0.010
Organizational Culture → Work Motivation → Performance	0.155	2.164	0.031

A p-value of 0.001 ( $< 0.05$ ) and a coefficient of 0.364, as evidenced by the data in the above table, show that organizational culture

significantly improves employee performance at PT XYZ. This implies that a one-unit improvement in corporate culture will result in

a 0.364-unit increase in personnel performance. Jufrizen (2020) and Zakie Irdhoanto Saiya (2015) also discovered a favorable and substantial correlation between corporate culture and employee performance, which is in line with these findings. Moreover, a p-value of 0.004 and a coefficient of 0.247 indicate that compensation has a substantial beneficial impact on worker performance. This suggests that a one-unit pay raise will result in a 0.247-unit improvement in worker performance. This outcome is consistent with the findings of Fauzan (2022), who also verified the effect of pay on performance. Furthermore, a p-value of 0.000 and a coefficient of 0.438 demonstrate that organizational culture has a considerable impact on job motivation. This result is consistent with that of Virsa (2020), who discovered that company culture is essential for raising employee motivation.

Additionally, compensation had a substantial impact on job motivation ( $p = 0.000$ , coefficient = 0.394). Bambang (2021) found a similar effect in his study. Through job motivation, corporate culture has an indirect impact on employee performance. This result aligns with the findings of Fauzan (2022), who confirmed that salary had an impact on performance. Additionally, a p-value of 0.000 and a coefficient of 0.438 show that job motivation is significantly impacted by organizational culture. This finding is in line with that of Virsa (2020), who found that increasing employee motivation requires a company's culture. Furthermore, job motivation was significantly impacted by salary ( $p = 0.000$ , coefficient = 0.394). In his research, Bambang (2021) discovered a similar result. Corporate culture indirectly affects employee performance through work motivation.

## Discussion

The influence of organizational culture on employee performance has been widely studied and proven to be significant. A positive organizational culture creates an environment that supports collaboration, enhances work motivation, and fosters individual development. According to Schein (2010), a strong organizational culture serves as a guide

for employee behavior and shapes the values that lead to improved performance. At PT XYZ, although the organizational culture is established, its implementation has not been optimal, resulting in employees not being fully motivated to perform better. This finding aligns with Graha (2016), who showed that an inconsistently applied organizational culture can reduce employee performance, despite the culture's potential to enhance work outcomes. In this regard, it is crucial for the company to build and strengthen an inclusive and supportive organizational culture so that employees feel a sense of ownership and commitment to the company's goals. Compensation also has a significant impact on employee performance, as demonstrated in Putra (2016), who emphasized that fair compensation can enhance work enthusiasm and employee motivation.

Compensation is not limited to salary but also includes various non-financial rewards that can improve employees' sense of being valued. Dessler (2014) explains that appropriate compensation can function as a strong motivator, encouraging employees to improve their performance. At PT XYZ, although compensation is provided, the existing reward system is considered insufficient by many employees, particularly in terms of recognizing individual or team achievements. Thus, the company needs to evaluate and adjust its compensation system to better meet employee expectations, motivating them to achieve higher performance levels. Work motivation plays a critical role in influencing employee performance. Robbins and Judge (2015) argue that motivation is the primary factor determining the level of effort and dedication individuals put into their work. In this study, work motivation was found to have a significant positive effect on employee performance, as indicated by a high coefficient. This is in line with Avni and Hamida (2015), who demonstrated that high work motivation directly correlates with better individual performance at work. By creating a supportive environment, offering suitable challenges, and providing rewards proportional to achievements, companies can increase work motivation among employees. Therefore, it is

essential for PT XYZ to focus on boosting motivation through more personalized approaches and recognition of employee accomplishments. As an intervening variable, work motivation also plays a key role in bridging the impact of organizational culture and compensation on employee performance. This is reflected in the findings, which show that both organizational culture and compensation not only affect performance directly but also through work motivation. Hair *et al.* (2023) emphasize the importance of Structural Equation Modeling (SEM) in evaluating complex causal relationships, which in this case demonstrate that organizational culture and compensation impact performance by enhancing work motivation. In other words, improving employee performance at PT XYZ depends not only on enhancing organizational culture or compensation but also on effectively motivating employees. Considering these factors, PT XYZ must ensure that every aspect of the organization ranging from culture to compensation works synergistically to drive motivation and employee performance. Given the significance of these three factors, the company should design a holistic policy that not only improves the compensation system but also builds a more inclusive and supportive culture, while fostering high work motivation among employees.

## Conclusion

It is possible to draw the conclusion that both organizational culture and compensation have a positive and significant impact on employee performance based on the research findings about their effects on employee performance at PT XYZ, with work motivation serving as an intervening variable. Furthermore, pay and company culture have a favorable and substantial impact on employee motivation. Additionally, via job motivation, corporate culture and pay both have a major indirect impact on employee performance. Finally, employee performance is positively and significantly impacted by job motivation itself. These findings suggest that raising employee enthusiasm at work and boosting corporate culture and pay may both significantly improve

worker performance. In conclusion, strengthening organizational culture, ensuring fair and motivating compensation systems, and fostering high work motivation are essential strategies to enhance employee performance in a sustainable and integrated manner. Based on the analysis and conclusions, several recommendations are proposed to enhance employee performance at PT XYZ in a comprehensive and sustainable manner. First, the company should strengthen its organizational culture by fostering effective and transparent leadership that not only builds employee trust but also cultivates a sense of belonging within the organization. This can be achieved through consistent communication of the company's values, regular feedback sessions, recognition of individual and team accomplishments, and inclusive decision-making processes. A strong and positive culture can increase employee engagement, reduce turnover, and promote collective responsibility toward achieving organizational goals. Second, in terms of compensation, it is essential for PT XYZ to not only maintain competitive salary structures but also to enhance non-monetary reward systems.

These may include opportunities for career advancement, public recognition, flexible working arrangements, and additional benefits such as wellness programs, professional development subsidies, or family-related support. By acknowledging employees' hard work and contribution through both tangible and intangible rewards, the company can foster a more motivated and committed workforce. Third, to effectively enhance work motivation, the company should invest in strategies that develop employees' creative potential and technical skills. This could involve implementing continuous training programs, facilitating mentorship or coaching, creating innovation-friendly work environments, and setting clear, achievable career development paths. Employees who feel supported in their professional growth are more likely to be loyal, take initiative, and perform beyond expectations. Lastly, PT XYZ should continuously evaluate and improve both the quality and quantity of employee output by setting clear performance metrics, offering

timely feedback, and providing the necessary resources and support to overcome work-related challenges. Implementing a culture of performance excellence through regular performance appraisals, targeted capacity building, and strategic workforce planning will contribute to long-term organizational effectiveness and competitiveness.

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