

# The Mediating Role of Work Motivation in the Relationship Between Compensation, Work Environment, and Employee Performance at Medistra Hospital

Agung Surya Dwianto\*, Lucia Rosdiana Damanik

Universitas Paramadina, Jl. Raya Mabas Hankam Kav 9, Jakarta Timur 13880, Indonesia

\*Corresponding author; E-mail: [agung.dwianto@paramadina.ac.id](mailto:agung.dwianto@paramadina.ac.id)

## Abstract

This study aims to explain the effect of compensation and work environment on employee performance with motivation as an intervening variable for nurses at Medistra Hospital. The type of research used in this study is a quantitative approach with the category of explanatory research. The population in this study were nurses at Medistra Hospital. The research sample was selected using the probability sampling method, namely 150 respondents. Data processing in this study was carried out using descriptive analysis and Structural Equation Modeling (SEM) analysis based on Partial Least Square (PLS). The results showed that in direct effect, compensation has an effect on employee performance, work motivation has no effect on employee performance, compensation has had an effect on work motivation, work environment has had an effect on work motivation. On the indirect effect, compensation has no effect on employee performance through work motivation. The work environment has no effect on employee performance through work motivation.

**Keywords:** Employee Performance, Compensation, Work Environment, Work Motivation.

## 1. Introduction

Hospitals as non-profit organisations in the health sector also have the role of human resources, namely as a determining factor in the success of the hospital in achieving the hospital's goals (Prananingrum, 2019). One important factor that needs serious attention from the management to be improved in a better direction is the HR factor (Dwianto, 2021). Employees in a hospital are not only positioned as a production factor but rather as a hospital asset that must be managed and developed. Employee performance in increasing patient loyalty is one of the most important factors in achieving company success. Medistra Hospital as one of the leading hospitals located on Jalan Gatot Subroto Kavling 59, South Jakarta as a health service provider is a private hospital owned by PT. Baktiparamita Putrasama which consists of expert doctors and customers, in this case patients from the middle to upper class, always trying to meet the needs of its customers by trying to improve service quality in accordance with customer expectations. As one part of the service of a service company, of course Medistra Hospital also has competitors according to its class in health examination services, so that the quality of service, accuracy of health examination results are parameters of service quality that must be achieved.

From table 1, it can be seen that employee performance at Medistra Hospital has ups and downs. Where nurses make up the largest part of the total employees at Medistra Hospital. The factors that affect the performance of nurse employees can be seen from

workload, work compensation, work environment, work stress, work motivation, managerial / supervisory support, and so on. Nurses are one of the important factors that need serious attention from management in order to lift the performance of Medistra hospital services. To obtain high nurse performance, hospitals need to have a good human resource management strategy.

**Table 1.** Medistra Hospital employee performance appraisal results period 2020 - 2022

No	Category	2020	2021	2022
1.	Excellent	30	24	27
2.	Good	216	201	209
3.	Fair	559	571	563
4.	Insufficient	7	10	9
Total		812	806	808

Source: HRD Medistra Hospital Jakarta, 2023

Preliminary surveys and in-depth interviews with Medistra Hospital's HRD manager uncovered a complex interplay of factors that are negatively impacting employee performance, particularly among nurses who comprise the majority of the hospital's staff. Specifically, overwhelming workloads, inadequate compensation, stressful work environments, low levels of work motivation, insufficient managerial/supervisory support, and other contributing factors are creating a challenging and demoralizing work environment. These issues not only hinder employee satisfaction and retention but also compromise the quality of patient care. By addressing these critical challenges, Medistra

Hospital can significantly improve employee morale, productivity, and ultimately, the overall quality of healthcare services it provides.

## 2. Literature Review

### 2.1. Employee Performance

In today's competitive industry, maintaining employee performance is key to success (Aslam et al, 2024). According to Jaffari et al (2024) employee performance is very important for the company, because employee performance will be directly proportional to the company's business development. Employee performance refers to the activities and tasks performed by an employee efficiently and effectively (Ahmad et al, 2015). Therefore, a dynamic environment requires companies to find new ways to manage and foster employees for better performance (Jyoti and Choudhary, 2024). Speaking of employee performance, employees can be said to work optimally when there is alignment between the individual contributions made and the achievement of organizational goals (Cao et al, 2024). The alignment of individual contributions with organizational goals, as highlighted by Cao et al (2024), underscores the critical role of employee engagement in driving optimal performance. Engaged employees are more likely to be motivated, committed, and productive, leading to better organizational outcomes. It can be concluded that employee performance has a very crucial role in the success of an organization. Optimal performance is not only measured by the efficiency and effectiveness of individuals in carrying out tasks, but also by the extent to which individual contributions are aligned with overall organizational goals. Therefore, to achieve optimal performance, companies need to focus on efforts to increase employee engagement, create a conducive work environment, and ensure alignment between individual and organizational goals.

### 2.2. Compensation

Proper employee compensation management is crucial for companies (Rojikinnor et al, 2023). Compensation, which is not merely direct cash payments, is one of the most important and sensitive issues (basic functions) in human resource management (HRM). It can play a significant role, among other factors, in the context of improving employee performance (Balogh et al, 2021). Designing a good compensation system, in addition to encouraging employee commitment to perform better, can also reduce turnover intentions (Berber and Gasic, 2024). From the opinions of the experts above, it can be

underlined that the design of a good compensation system is not only about providing financial rewards but also includes various forms of non-financial rewards that can meet the psychological needs of employees. When employees feel that their contributions are recognized and valued fairly, both through competitive salaries and through non-financial rewards such as career development opportunities, work flexibility, or public recognition, then their intrinsic motivation to perform will increase. This intrinsic motivation, which comes from satisfaction in doing the job and a sense of value for the organization, has a strong positive correlation with employee performance. Empirical research shows that employees with high intrinsic motivation tend to be more creative, innovative, and proactive in completing their tasks. In addition, they also have a higher level of organizational commitment, which is reflected in low turnover and absenteeism rates.

### 2.3. Work Environment

The work environment is a place where employees carry out their activities, which can have both positive and negative impacts on employees in achieving their work results. A conducive work environment will have a positive impact on the sustainability of work, while a less conducive work environment will have a negative impact on the sustainability of that work (Prawirosumarto et al, 2017). If an employee enjoys their work environment, they will enjoy their time at work doing such activities. They will use their work time effectively and optimally, and their job performance will be high (Al-Zoubi et al, 2022). Bibi et al (2018) state that a good work environment, such as an attractive and clean environment, encourages individual employees to complete their work effectively and is expected to have a positive impact on employee retention and commitment. In addition to the physical environment where employees work, the work environment also includes working relationships among employees and the relationship between subordinates and superiors (Hessari et al, 2024). A safe and comfortable work environment allows employees to work optimally (Chaudry and Espinosa, 2024). The work environment can affect employees' emotions. If an employee enjoys their work environment, they will enjoy their time at work doing such activities. They will use their work time effectively and optimally, and their job performance will be high. In addition to the physical environment where employees work, the work environment also includes working relationships among employees and the relationship between subordinates and superiors.

## 2.4. Work Motivation

When we look at the relationship between stimuli and responses, employee work motivation can be measured by how often they are absent, take leave, quit their jobs, or even how quickly they arrive at the office (Uzkurt et al, 2023). Conceptual evidence suggests that intrinsically motivated employees are innovative and high performers in the workplace (Shaheen et al, 2024). Empirical evidence shows that work motivation positively influences performance. The level of an employee's motivation is reflected in the decisions they make in various situations. From choosing to be present at work or not, to determining task priorities and time allocation. Decisions to work overtime or seek entertainment outside of working hours are also indicators of work motivation. (Abdelwahed et al, 2024). Individual performance on a task is often used as a measure of motivation level. However, it is important to understand that motivation and performance are different constructs. Although there is a positive correlation between the two, this relationship is not deterministic (Dipboye, 2018). From this explanation, it can be concluded that a high level of motivation does not automatically guarantee optimal performance, and vice versa. Other factors such as individual ability, available resources, task complexity, and environmental pressures also play a significant role in determining the final outcome. Thus, performance alone cannot be used as the sole valid indicator of motivation.

## 2.5. Conceptual Framework

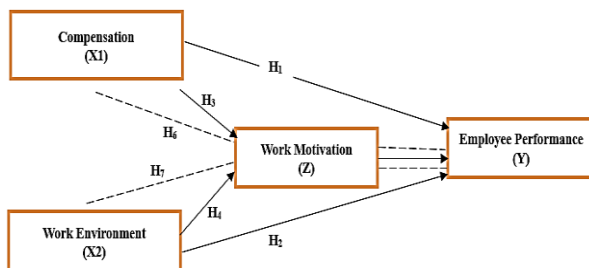


Figure 1. Conceptual framework

## 2.6. Hypotheses Development

### 2.6.1. The Effect of Compensation on Employee Performance

Compensation plays a crucial role in influencing employee performance. Numerous studies have demonstrated a positive correlation between adequate and equitable compensation and employee motivation, satisfaction, and overall job performance (Conroy and Morton, 2024; Reichert, 2024; Vesa et al, 2024)). Financial incentives, such as bonuses and commissions,

can effectively motivate employees to achieve higher levels of productivity. Additionally, non-financial rewards, like recognition and promotions, can contribute to employee engagement and job satisfaction. However, the relationship between compensation and performance is complex and influenced by factors like organizational culture, job design, and individual characteristics. To maximize the effectiveness of compensation programs, organizations must consider the theoretical underpinnings, empirical evidence, and moderating factors that influence this relationship.

H<sub>1</sub>: Compensation has a positive effect on employee performance.

### 2.6.2. The Effect of Work Environment on Employee Performance

The relationship between work environment and employee performance has been a longstanding topic of interest in organizational psychology. A positive work environment is often seen as a catalyst for increased productivity, job satisfaction, and overall employee well-being. Several theories, including self-determination theory, social exchange theory, and job characteristics theory, support this relationship. Empirical studies consistently find a positive association between work environment factors, such as supportive leadership, a positive organizational culture, and flexible work arrangements, and employee outcomes like job satisfaction, motivation, and productivity (Pawirosumarto, 2017; A-Zoubi et al, 2022; Hessari et al, 2024). These findings highlight the importance of creating a conducive work environment to enhance employee engagement and overall performance.

H<sub>2</sub>: Work environment has a positive effect on employee performance.

### 2.6.3. The Effect of Work Motivation on Employee Performance

Self-determination theory, expectancy theory, and goal-setting theory provide theoretical frameworks for understanding this relationship. Empirical studies consistently demonstrate that intrinsically motivated employees with clear goals and expectations are more likely to exhibit high levels of performance (Dipboye, 2018; Guo et al, 2014; He, 2024). Factors such as employee engagement and creativity have been identified as mediators in this relationship. By fostering a work environment that supports intrinsic motivation, meaningful goal setting, and clear expectations, organizations can enhance employee performance and achieve positive outcomes.

H<sub>3</sub>: Work motivation has a positive effect on employee performance.

#### 2.6.4. The Effect of Compensation on Work Motivation

The hypothesis that compensation has a positive effect on employee work motivation is supported by theoretical frameworks like expectancy theory, equity theory, and goal-setting theory. Empirical studies consistently demonstrate a positive correlation between compensation and motivation, although the relationship can be complex and influenced by various factors (Cadsby et al, 2016; Conroy et al, 2014; Ashraf, 2020). To optimize the motivational impact of compensation, organizations must carefully consider employee needs, implement fair and equitable practices, and align compensation with individual and organizational goals.

H<sub>4</sub>: Compensation has a positive effect on work motivation.

#### 2.6.5. The Effect of Work Environment on Work Motivation

The relationship between work environment and employee work motivation is a central tenet of organizational psychology. A positive work environment, characterized by factors such as physical comfort, social support, and job autonomy, is hypothesized to foster higher levels of employee motivation. Theoretical frameworks such as self-determination theory, expectancy theory, and social exchange theory provide conceptual underpinnings for this relationship. Empirical studies have consistently demonstrated that a positive work environment can enhance intrinsic motivation, reduce stress, and increase job satisfaction, ultimately leading to higher levels of employee work motivation (Nafukho et al, 2023; Porter et al, 2016). For instance, research has shown that physical comfort, social support, and job autonomy can all positively influence employee motivation. However, the specific effects of these factors may vary depending on individual differences, organizational culture, and other contextual variables. Future research should continue to explore the complexities of the relationship between work environment and employee work motivation, with a particular focus on identifying the most effective strategies for creating positive work environments that enhance employee engagement and performance.

H<sub>5</sub>: Work environment has a positive effect on work motivation.

#### 2.6.6. The Effect of Compensation Through Work Motivation on Employee Performance

The relationship between compensation and work motivation, and its subsequent influence on

employee performance, is a complex and multifaceted issue that has been extensively studied in organizational psychology. While traditional theories like Expectancy Theory highlight the role of compensation in influencing effort and performance, contemporary research has emphasized the mediating role of work motivation. Compensation, when perceived as fair, equitable, and aligned with organizational goals, can significantly enhance employee intrinsic and extrinsic motivation (Yang and Chen, 2019; Massingham and Tam, 2015). Intrinsic motivation, driven by internal rewards such as enjoyment and satisfaction, and extrinsic motivation, driven by external rewards such as pay and benefits, both contribute to higher levels of performance. However, individual differences, organizational culture, and other contextual factors can influence the strength and direction of this relationship. Further research is needed to explore the nuances of compensation's impact on work motivation and employee performance in diverse organizational settings.

H<sub>6</sub>: Compensation through work motivation has a positive effect on employee performance.

#### 2.6.7. The Effect of Work Environment through Work Motivation on Employee Performance

Intrinsic motivation, driven by personal interest and enjoyment, is fostered by environments that promote autonomy, mastery, and relatedness. Extrinsic motivation, driven by external rewards or pressures, can also be positively impacted by a supportive work environment that provides clear expectations, adequate resources, and recognition for achievements. The interplay between intrinsic and extrinsic motivation ultimately influences employee engagement, job satisfaction, and overall performance. Empirical research consistently supports the positive relationship between work environment, motivation, and employee outcomes, highlighting the importance of creating conducive work environments to optimize organizational success (Al-Zoubi et al, 2022)

H<sub>7</sub>: Work environment through work motivation has a positive effect on employee performance.

### 3. Methods

#### 3.1. Research Design

Quantitative Approach with Explanatory Research: The study adopts a quantitative approach, focusing on the numerical measurement and analysis of variables. Specifically, it employs an explanatory research category to investigate the causal relationships between variables (Umar, 2005). This approach is suitable for determining the effects of independent variables on dependent

variables, as well as the mediating roles of intervening variables. Given the level of explanation required, the study utilizes a causal associative research design. This aims to establish the cause-and-effect relationships between compensation, work environment, work motivation, and employee performance. The research will explore how these variables influence and are influenced by each other.

### 3.2. Population and Sample

The study's target population consists of nurses employed at Medistra Hospital. This population was selected based on the specific research objectives and the hospital's relevance as the research setting. A probabilistic sampling method was employed to ensure representativeness. The sample size was determined based on the ideal criteria for SEM modeling analysis, which suggests a range of 100-200 respondents with an absolute minimum of 50 (Sugiyono, 2017). Additionally, the minimum sample size was calculated using the formula: number of indicators  $\times$  5 to 10. Given 30 indicators, a minimum of 150 respondents was required.

### 3.3. Research Instruments

Primary data was collected using a structured questionnaire. The questionnaire employed a multi-cotomous format with a Likert scale of 1-5 to measure respondents' perceptions of compensation, work environment, work motivation, and employee performance. Secondary data was obtained from written reports and information about Medistra Hospital, including previous studies. This data provided contextual information and supported the analysis of the primary data.

### 3.4. Data Collection Procedure

The questionnaires were distributed directly to the nurses at Medistra Hospital. The distribution process was designed to ensure clear instructions and adequate time for completion. The collected questionnaires were carefully reviewed and coded for data analysis. Appropriate data management techniques were employed to maintain data integrity and confidentiality.

### 3.5. Data Analysis Technique

Descriptive statistics were used to summarize the characteristics of the sample and the distribution of variables. This analysis provided a basic understanding of the data and served as a foundation for further analysis. SEM-PLS was the primary analytical technique used to test the hypothesized relationships

between variables (Sugiyono, 2017). This method is suitable for analyzing complex models with both direct and indirect effects. The SmartPLS 3.0 software was utilized to facilitate the SEM-PLS analysis.

## 4. Result

The demographic characteristics of the research respondents are presented in Table 2.

**Table 2.** Demographic data of research respondents

	Description	Total	Percentage
Gender	Male	28	18.7
	Female	122	81.3
Age	20-25 years old	24	16.0
	26-30 years old	31	20.7
	31-35 years old	26	17.3
	36-40 years old	17	11.3
	41 years and above	52	34.7
Period of Employment	<6 years old	56	37.3
	6-10 years old	20	13.3
Latest Education	10-15 years old	24	16.0
	>15 years old	50	33.3
	D3 Nursing	93	62.0
Education	Nursing	57	38.0
	Professional Education (Ners)		

Source: Primary data processed, 2023

The majority of respondents who are employees at Medistra Hospital are women with an age range of 41 years and over with more than 15 years of service with the most recent education is D3 Nursing. This shows that the work or profession as a nurse is still synonymous with work that deserves to be done by women, considering that this profession really requires a loving soul, requires high patience and maternal instincts.

### 4.1. SmartPLS Testing

#### 4.1.1. Validity Testing (Convergent Validity)

In testing convergent validity, the value of outer loadings or loadings factor is used. Each indicator is declared to meet the requirements of convergent validity in the ideal category if the value is  $> 0.7$ . Table 2 is the outer loadings value of each indicator on the research variables.

Based on the Table 3, it can be seen that the results of respondents who gave an assessment of each indicator in the compensation, work environment, employee performance and work motivation variables had many outer loadings  $< 0.7$ . In addition, it can also be seen that there are still indicators that have an outer loadings value  $> 0.7$ . All declared indicators are

eligible or valid for further analysis. After removing invalid indicators and all indicators have met the requirements for testing the outer loadings value > 0.7, then proceed with the requirements for the Average

Variance Extract (AVE) value. The AVE value has a criterion of > 0.5 so that it is said to be valid and can be used to measure each latent variable. The AVE value in this study can be seen in the Table 4.

**Table 3.** Results of outer loading test for compensation variables

Variables	Indicators	Outer Loading	Description
Compensation (X1)	The operational benefits provided are in accordance with the employee's duties. X1p1	0.752	Qualified
	The holiday allowance given to employees is adequate and satisfactory. X1p2	0.666	Not qualified
	Health benefits provided to employees are satisfactory. X1p3	0.669	Not qualified
	The provision of incentives has been done fairly. X1p4	0.709	Qualified
	Employees are given equal opportunities to attend education and training. X1p5	0.693	Not qualified
	Employees are rewarded with praise for their work achievements Indirect Compensation. X1p6	0.685	Not qualified
	If employees and their families are sick, employees get health insurance. X1p7	0.456	Not qualified
Work Environment (X2)	The lighting in the room where you work is good enough. X2p1	0.689	Not qualified
	There is backup lighting where you work when there is a power outage. X2p2	0.673	Not qualified
	The temperature of the room where you work makes you comfortable at work. X2p3	0.781	Qualified
	The paint color used in the room you work in gives the effect of enthusiasm for work. X2p4	0.696	Not qualified
	The room you occupy to work has a sufficient and comfortable area. X2p5	0.651	Not qualified
	The space you occupy to work is always clean and tidy. Work Safety. X2p6	0.741	Qualified
	You feel that the building where you work has met safety standards. X2p7	0.690	Not qualified
	You maintain a good relationship with your supervisor. X2p8	0.744	Qualified
	You maintain a good relationship with your coworkers. X2p9	0.784	Qualified
Employee Performance (Y)	You adhere to the prescribed work standards Y1p1	0.852	Qualified
	You master all tasks that should be jobdesc Y1p2	0.223	Not qualified
	You are punctual in completing tasks and doing all the work that is your responsibility Y1p3	0.860	Qualified
Work Motivation (Z)	Fulfillment of basic needs such as clothing, food and shelter is adequate. Z1p1	0.746	Qualified
	Income from salary, overtime pay, honorarium, allowances and incentives is adequate. Z1p2	0.773	Qualified
	Security in carrying out work and old age is guaranteed. z1p3	0.773	Qualified
	The need for affection such as attention and friendship (cooperation) from work groups or between groups is well established. Z1p4	0.824	Qualified
	Leaders or superiors have trained/developed employees' work abilities well. Z1p5	0.824	Qualified
	Recognition of the abilities of colleagues to leaders / superiors or vice versa has been recognized by each. Z1p6	0.810	Qualified

Source: Primary data processed, 2023

**Table 4.** Average Variance Extract (AVE) test results

Variables	AVE	Description
Employee Performance (Y)	0.746	Qualified
Compensation (X1)	0.732	Qualified
Work Environment (X2)	0.683	Qualified
Work Motivation (Z)	0.628	Qualified

Source: Primary data processed, 2023

Based on the presentation of Table 4. It can be seen that the AVE value of the employee performance variable is 0.746, compensation is 0.732, work environment is 0.683, and work motivation is 0.628. All variables have a value > 0.5 which indicates that each variable in this study is considered good.

#### 4.1.2. Discriminant Validity

Discriminant validity testing is done by looking at the Fornell Larcker Criterion value which states that the square root of the AVE must be greater than the latent variable correlation.

**Table 5.** Discriminant validity test results

Variables	Y	X <sub>1</sub>	X <sub>2</sub>	Z
Y	0.864			
X <sub>1</sub>	0.509	0.855		
X <sub>2</sub>	0.564	0.517	0.826	
Z	0.516	0.644	0.743	0.792

Source: Primary data processed, 2023

**Table 6.** Cross loadings test results

	Employee Performance (Y)	Compensation (X <sub>1</sub> )	Work Environment (X <sub>2</sub> )	Work Motivation (Z)	Description
x1p1	0.478	<b>0.852</b>	0.388	0.506	Qualified
x1p4	0.393	<b>0.859</b>	0.495	0.595	Qualified
x2p3	0.440	0.417	<b>0.734</b>	0.531	Qualified
x2p6	0.381	0.457	<b>0.788</b>	0.672	Qualified
x2p8	0.564	0.421	<b>0.872</b>	0.616	Qualified
x2p9	0.470	0.416	<b>0.901</b>	0.631	Qualified
y1p1	<b>0.874</b>	0.463	0.528	0.438	Qualified
y1p3	<b>0.853</b>	0.414	0.443	0.455	Qualified
z1p1	0.515	0.424	0.618	<b>0.743</b>	Qualified
z1p2	0.424	0.584	0.516	<b>0.771</b>	Qualified
z1p3	0.407	0.470	0.529	<b>0.764</b>	Qualified
z1p4	0.317	0.528	0.659	<b>0.831</b>	Qualified
z1p5	0.452	0.532	0.630	<b>0.830</b>	Qualified
z1p6	0.346	0.520	0.569	<b>0.811</b>	Qualified

Source: Primary data processed, 2023

Based on the Table 4, it can be seen that the AVE root correlation value of each latent variable has the greatest value compared to the AVE square root correlation of other latent variables. This shows that each latent variable has good discriminant validity. Furthermore, the requirement for discriminant validity

is to look at the cross loadings on each indicator whose value is > 0.7 and all indicators must load the highest value on the related construct. Discriminant validity testing in this study can be seen in Table 5.

In the table 6, the value of cross loadings based on each indicator has a value of > 0.7 and in each of the related constructs is greater than the cross loadings of other constructs. Thus the requirements for discriminant validity in this study are met or it can be concluded that all existing indicators are valid.

#### 4.1.3. Reliability Testing

Reliability testing is to use the value of Cronbach's Alpha and Composite Reliability. A construct can be said to be a good reliability or the questionnaire used in the research tool is reliable or consistent, if it has a Cronbach's Alpha and Composite Reliability value > 0.7. Table 7 is the value of Cronbach's Alpha and Composite Reliability of each research variable.

**Table 7.** Construct reliability test results

Variables	Cronbach's Alpha	Composite Reliability	Description
Employee Performance (Y)	0.660	0.855	0.746
Compensation (X <sub>1</sub> )	0.633	0.845	0.732
Work Environment (X <sub>2</sub> )	0.843	0.895	0.683
Work Motivation (Z)	0.881	0.910	0.628

Source: Primary data processed, 2023

Table 7 of this study shows that the Cronbach's Alpha and Composite Reliability values of all variables have met the reliability requirements, namely > 0.6. It can be concluded that all constructs can be accepted for reliability.

#### 4.2. PLS Structural Model Evaluation Analysis (Inner Model)

Structural model analysis is a proof that supports the theoretical model, namely the theoretical relationship between exogenous construction and endogenous construction. Some of the tests carried out in evaluating the structural model include.

The table 7 shows that the VIF value on all variable constructs is not more than 10. It can be concluded that all independent variables in this study have met the requirements so that there is no multicollinearity between the independent variables. Based on the results of R Square, it shows that the

effect of compensation and work environment on employee motivation is 64.5%, while the remaining 35.5% is explained by other exogenous variables outside the study. Based on the results of F Square, it can be found that there is a large effect or relationship between the work environment on performance of 0.200 and the work environment on work motivation of 0.513. While other relationships have little effect. The Q Square value concluded that the model in this study has a relevant predictive value and has a good / good observation value, where the model used can explain the information in the research data by 39%. In the Goodness of Fit test results, it is known that the SRMR value is 0.079 below 0.10, which shows that the fit model of this study is considered good. While the NFI value is 0.729 below the recommended provisions of > 0.90, but this is said to be better than the null model.

### 4.3. Hypothesis Testing

The hypothesis testing value of this study can be shown in Table 8.

In this study, 7 hypotheses were proposed, namely 5 direct effect hypotheses and 2 indirect effect hypotheses because there are exogenous variables,

endogenous variables, and intervening variables. Based on the results of the direct effect test, the T Statistics value of the direct effect of compensation on employee performance is greater than the T Table (1.96), which is 3.406 with an effect of 0.297 or 29.7%, and P Values > 0.05 of 0.001. It can be concluded the effect of competency development on organisational commitment is positive and significant. Then in accordance with H<sub>1</sub>: Compensation has a positive effect on employee performance, thus H<sub>1</sub> is accepted.

The T Statistics value of the direct effect of the work environment on employee performance is greater than the T Table (1.96) which is 3.638 with an effect of 0.410 or 41.0%, and P Values < 0.05 of 0.000. It can be concluded that the effect of the work environment on employee performance is positive and significant. So in accordance with H<sub>2</sub>: The work environment has a positive effect on employee performance is accepted.

The T Statistics value of the direct effect of work motivation on employee performance is smaller than the T Table (1.96) which is 0.515 with an effect of 0.033 or 3.3% and P Values > 0.05 of 0.607. It can be concluded that the effect of work motivation on employee performance is positive and insignificant. So it is not in accordance with H<sub>3</sub>: Work motivation has a positive effect on employee performance is rejected.

**Table 8.** Inner model test results

<b>Observed Variable Test (VIF)</b>					
Variables	Employee Performance (Y)	Compensation (X1)	Work Environment (X2)	Work Motivation (Z)	Description
Employee Performance (Y)				1,618	
Compensation (X1)	1,365			1,507	
Work Environment (X2)	1,365			1,637	
WorkMotivation (Z)					
<b>Test Coefficient of Determination (R Square)</b>					
Variables	R Square	R Square Adjusted			
Employee Performance (Y)	0.382	0.374			
WorkMotivation (Z)	0.645	0.637			
<b>Effect Size Test (F Square)</b>					
Variables	Employee Performance (Y)	Compensation (X1)	Work Environment (X2)	Work Motivation (Z)	
Employee Performance (Y)				0.002	
Compensation (X1)	0.104			0.222	
WorkEnvironment (X2)	0.200			0.513	
WorkMotivation (Z)					
<b>Predictive Relevance Test (Q Square)</b>					
Variables	Q <sup>2</sup> (=1-SSE/SSO)				
Employee Performance (Y)	0.243				
Compensation (X1)					
WorkEnvironment (X2)					
Work Motivation (Z)	0.390				
<b>Model Fit Test (Goodness of Fit)</b>					
	Saturated Model	Estimated Model			
SRMR	0.079	0.079			
NFI	0.729	0.729			

Source: Primary data processed, 2023



Table 9. Hypothesis testing results

<b>Path Coefficient Result</b>					
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Employee Performance (Y) → Work Motivation (Z)	0.033	0.028	0.064	0.515	0.607
Compensation (X <sub>1</sub> ) → Employee Performance (Y)	0.297	0.287	0.087	3.406	0.001
Compensation (X <sub>1</sub> ) → Work Motivation (Z)	0.345	0.352	0.072	4.810	0.000
Work Environment (X <sub>2</sub> ) → Employee Performance (Y)	0.410	0.391	0.113	3.638	0.000
Work Environment (X <sub>2</sub> ) → Work Motivation (Z)	0.546	0.537	0.070	7.755	0.000
<b>Direct Effect Results (Path Coefficients)</b>					
	Original Sample (O)	T Statistics ( O/STDEV )	P Values	Description	
H <sub>1</sub> : Compensation (X <sub>1</sub> ) → Employee Performance (Y)	0.297	3.406	0.001	Positive Significant	Accepted
H <sub>2</sub> : Work Environment (X <sub>2</sub> ) → Employee Performance (Y)	0.410	3.638	0.000	Positive Significant	Accepted
H <sub>3</sub> : Work Motivation (Z) → Employee Performance (Y)	0.033	0.515	0.607	Positive Not Significant	Rejected
H <sub>4</sub> : Compensation (X <sub>1</sub> ) → Work Motivation (Z)	0.354	5.311	0.000	Positive Significant	Accepted
H <sub>5</sub> : Work Environment (X <sub>2</sub> ) → Work Motivation (Z)	0.560	8.178	0.000	Positive Significant	Accepted
<b>Indirect Effect Results (Specific Indirect Effects)</b>					
	Original Sample (O)	T Statistics ( O/STDEV )	P Values	Description	
Compensation (X <sub>1</sub> ) → Employee Performance (Y) → Work Motivation (Z)	0.010	0.501	0.617	Positive Not Significant	Rejected
Work Environment (X <sub>2</sub> ) → Employee Performance (Y) → Work Motivation (Z)	0.014	0.484	0.628	Positive Not Significant	Rejected

Source: Primary data processed, 2023

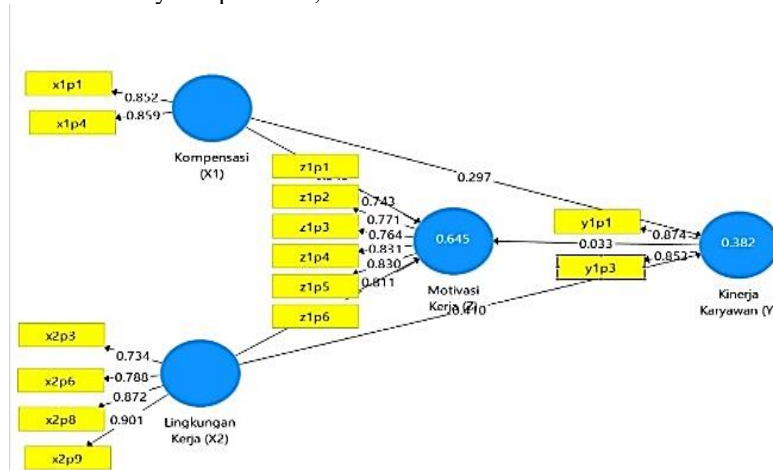


Figure 2. Hypothesis testing results

The T Statistics value of the direct effect of compensation on work motivation is greater than the T Table (1.96), which is 5.311 with an effect of 0.354 or 35.4%, and P Values > 0.05 of 0.000. It can be concluded that the effect of compensation on work motivation is positive and significant. Then in accordance with H<sub>4</sub>: Compensation affects work motivation, thus H<sub>4</sub> is accepted.

The T Statistics value of the direct effect of the work environment on work motivation is greater than the T Table (1.96), which is 8.178 with an effect of 0.560 or 56.0%, and P Values > 0.05 of 0.000. It can be concluded that the effect of organisational commitment on performance is positive and significant. Then in accordance with H<sub>5</sub>: The work environment has a positive effect on work motivation, thus H<sub>5</sub> is accepted.

Based on the results of the indirect effect test, the T Statistics value of the indirect effect of compensation on performance through work motivation is smaller than the T Table (1.96) which is 0.501 with an effect of 0.010 or 0.1%, and P Values > 0.05 of 0.617. It can be concluded that the effect of compensation on performance through work motivation is positive and insignificant. So it is not in accordance with H<sub>6</sub>: Compensation has a positive effect on performance through work motivation, thus H<sub>6</sub> is rejected.

The T Statistics value of the indirect effect of the work environment on employee performance through work motivation is smaller than the T Table (1.96) which is 0.484 with an effect of 0.014 or 1.4%, and P Values > 0.05 of 0.628. It can be concluded that the effect of work environment on performance through work motivation is positive and insignificant. So it is not in accordance with H<sub>7</sub>: The work environment has a positive effect on performance through work motivation, thus H<sub>7</sub> is rejected.

## 5. Discussion

Based on our findings, we conclude that compensation alone is not enough to fully explain employee performance. While it plays a significant role, other factors, such as work environment, also make a considerable contribution. Our analysis supports the direct effect hypothesis, which suggests that adequate compensation is a catalyst for improving performance. The results of this study are in accordance with previous research by Conroy and Morton (2024), Reichert (2024) and Vesa et al (2024) which shows that compensation has a positive effect on employee performance. Employees who feel fairly compensated are more likely to be motivated and engaged in their work. The work environment emerged as a stronger predictor of employee performance. A positive and supportive work culture fosters a sense of belonging,

job satisfaction, and ultimately, higher levels of productivity. Our findings are in line with existing research, which indicates that a conducive work environment is very important to foster employee motivation and engagement, such as in a study conducted by Nafukho et al (2023) and Porter et al (2016) which states that the work environment has a positive and significant effect on employee work motivation. These results show that although compensation is an important factor, it is not the only determinant of employee performance. A holistic approach that considers both compensation and work environment is necessary to create a thriving and productive workplace.

The hypothesis that work motivation is a negligible factor in improving employee performance was rejected. This finding contradicts the research of Madiistriyatno and Kamsinah (2022), which demonstrated a significant positive correlation between motivation and performance optimization. While compensation was found to positively influence work motivation, its impact was less pronounced than that of the work environment. This aligns with existing literature (Cadsby et al, 2016; Conroy et al, 2014; Ashraf, 2020) highlighting the importance of compensation in motivating employees. The work environment emerged as a more potent driver of work motivation, corroborating the findings of Nafukho et al. (2023). Interestingly, our analysis revealed that compensation's indirect effect on performance through work motivation was non-significant, contrasting with the study of Yang and Chen (2019); Massingham and Tam (2015). This suggests that while compensation can enhance motivation, its impact on performance may be more direct or mediated through other factors. Similarly, the work environment's indirect influence on performance through work motivation was found to be insignificant. This aligns with Asnawi's (2020) research, which indicated that work motivation does not fully mediate the relationship between the work environment and employee performance. These results suggest that while the work environment can positively impact both motivation and performance, the relationship between these variables is complex and may involve additional factors.

## 6. Conclusions

This study aims to investigate the mediating role of work motivation in the relationship between compensation, work environment, and employee performance at Medistra Hospital. Our analysis shows that although compensation and work environment significantly affect employee performance, the effect is not solely mediated by work motivation. The hypothesis that

work motivation is a negligible factor in improving employee performance is rejected. However, our findings show that the direct effects of compensation and work environment on performance are more pronounced than the indirect effects through work motivation. This indicates that while motivation can improve performance, it may not be the primary mechanism through which compensation and work environment exert their influence. The limitations of this study only examined one hospital. This may limit the generalizability of the findings. In order to avoid biased generalization, future research may examine several samples of hospitals of similar size. Despite these limitations, this study contributes to the existing literature by explaining the complex reciprocal relationship between compensation, work environment, and employee performance. The findings suggest that organizations should strive to create a supportive work environment and provide fair compensation to foster employee motivation and improve performance. By understanding the direct and indirect impacts of these factors, organizations can develop targeted strategies to increase employee engagement and productivity.

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