

**THE INFLUENCE OF COMPENSATION AND WORK
ENVIRONMENT ON EMPLOYEE PERFORMANCE MEDIATED BY
JOB SATISFACTION (A STUDY ON EMPLOYEES OF ELRESAS
WOVEN FOLDING MAT COMPANY)**

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Article Info	ABSTRACT
Keyword: Compensation, Work Environment, Employee Performance, Job Satisfaction, Elresas	The research is titled "The Influence of Compensation and Work Environment on Employee Performance Mediated by Job Satisfaction (A Study on Employees of Elresas Folding Mat Company)." It aims to analyze the impact of compensation and work environment on employee performance, with job satisfaction as a mediating variable (study on employees of Elresas Folding Mat Company). The type of research used is quantitative research. The population in this study consists of all 248 employees of Elresas. The sample comprises 153 respondents, selected using purposive sampling methods. Data analysis techniques employ PLS-SEM (Partial Least Squares Structural Equation Modeling) with the aid of SmartPLS 3 software. The analysis includes Outer Model testing, which involves validity and reliability tests, as well as Inner Model testing, which includes Determination Coefficient testing, Path Coefficient testing, hypothesis formulation determining the t-statistic, decision-making, and mediation tests. The results indicate that compensation has a negative and insignificant effect on employee performance at Elresas Folding Mat Company. The work environment has a positive and significant effect on employee performance. Compensation positively and significantly affects employee performance through job satisfaction. Additionally, the work environment positively and significantly affects employee performance through job satisfaction.

INTRODUCTION

In an increasingly competitive business environment, human resources are crucial to a company's success. Achieving organizational goals relies not only on effective management and adequate facilities but also significantly on the quality of the human resources executing these tasks. Active, motivated, and prosperous employees are key to the business operations of a company.

Employees are the most important assets of a company, playing strategic roles as thinkers, planners, and managers of organizational activities, while optimizing other resources (Nuraeni & Irawati, 2020). Therefore, the success of a company heavily depends on the optimization of its human resources, as evidenced by the contributions of employees who provide talent, energy, creativity, and enthusiasm. This is essential for operational success.

No company can succeed without quality human resources. Regardless of the technology available, without the support of competent human resources, organizational goals are hard to achieve (Rizky & Nabila, 2022). Consequently, entrepreneurs must continually pay attention to their employees to ensure that plans are executed smoothly. One indicator of a company's success is its performance, alongside the performance of its human resources.

The performance of individual employees significantly influences organizational success. Companies strive to enhance employee performance, hoping to meet their goals (Nuraeni & Irawati, 2020). According to Husna and Prasetya (2024), employee performance refers to the ability to meet job demands, completing tasks within deadlines while adhering to company morals and ethics. Thus, employee performance is a key factor determining a company's success, influenced by both internal and external factors.

Various factors affect employee performance, categorized into internal and external factors. Internal factors originate from within the employee, including personality, motivation, age, gender, education, and work experience. External factors encompass aspects outside the employee, such as the work environment, organizational policies, management systems, compensation, organizational culture, and market conditions (Sihaholo & Siregar, 2019).

These factors determine the performance levels of employees. Low employee performance is a phenomenon that can disrupt a company's operations. Companies must prepare to face challenges regarding human resources, which can impact their performance and hinder goal achievement. Performance is measured based on quality and quantity according to established standards, reflecting the contributions of employees.

One reason for low employee performance is perceived inadequate compensation. Nuraeni & Irawati (2020) emphasize that companies should provide appropriate compensation based on employees' performance. This includes financial aspects like bonuses and insurance and non-financial aspects like a supportive work environment. Factors influencing employee performance are diverse, but compensation is a primary motivator.

Employees desire compensation that meets their expectations, and when fulfilled, they exhibit greater enthusiasm, enhancing their performance. Satisfied employees tend to deliver better results (Wehantouw et al., 2022). Fachiroh and Suratman (2022) state that to achieve job satisfaction, companies must meet employee needs and provide opportunities for growth. Effective compensation management is essential for achieving company goals.

In addition to compensation, the work environment significantly affects employee satisfaction. A conducive work environment fosters collaboration and collective achievement (Donley, 2021). A supportive environment positively impacts job performance, while a negative one can hinder it. Research by Suryani & Hartono (2020) shows that compensation positively and significantly affects employee performance, while Mardika (2023) suggests that higher compensation can sometimes lead to decreased performance.

Based on the issues presented above, there are various discrepancies in research findings concerning each variable, namely compensation and work environment. Therefore, this study aims to investigate the influence of compensation and work environment on employee performance through job satisfaction. This research will compare previous studies and refer to theories and field data conditions. Hence, the researcher titles this study: "The Influence of Compensation and Work Environment on

Employee Performance Mediated by Job Satisfaction (A Study on Employees of Elresas woven folding mat company)."

RESEARCH METHODS

This study employs a quantitative research method. According to Priyono (2008:22), quantitative research is a scientific approach that applies nomothetic principles and deductive reasoning. Sugiyono (2014:23) states that quantitative research is systematically structured from the initial stages to the research design. The population for this study consists of 248 employees of Elresas, including 2 in administration, 4 drivers, 8 in packaging, 42 in sewing, 137 in manual weaving, 8 in thread winding, 45 in machine weaving, and 4 in quality control. The sample was taken using Probability Sampling, specifically Simple Random Sampling. Based on the Slovin formula, the sample size is determined to be 153 respondents.

The data analysis technique was conducted using SmartPLS 3, with testing that includes, first, the Measurement Model (Outer Model), there's Validity (Convergent Validity Test, Discriminant Validity) and Reliability. Second, the Structural Model (Inner Model), which includes the Determination Coefficient (R-Square) and Path Coefficient. Third, Hypothesis Testing, and fourth, Mediation Analysis.

RESULTS AND DISCUSSION

Measurement Model (*Outer Model*)

1. Validity Test

a. Convergent Validity

Convergent validity testing is conducted to assess the indicators of each variable by analyzing the outer loading values. If the outer loading value is greater than 0.7, the indicator is considered valid. Below are the results obtained from the testing using SmartPLS 3 software.

Table 1 Outer Loading

Indicator	Outer Loading Result	Rate Of Thumb	Descriptions
X ₁ .1	0.849	0.700	Valid
X ₁ .2	0.803	0.700	Valid
X ₁ .3	0.838	0.700	Valid
X ₁ .4	0.801	0.700	Valid
X ₁ .5	0.785	0.700	Valid
X ₂ .1	0.840	0.700	Valid
X ₂ .2	0.879	0.700	Valid
X ₂ .3	0.866	0.700	Valid
X ₂ .4	0.781	0.700	Valid
X ₂ .5	0.822	0.700	Valid
Y.1	0.874	0.700	Valid
Y.2	0.812	0.700	Valid
Y.3	0.870	0.700	Valid
Y.4	0.881	0.700	Valid
Y.5	0.823	0.700	Valid
Z.1	0.796	0.700	Valid
Z.2	0.807	0.700	Valid
Z.3	0.744	0.700	Valid
Z.4	0.816	0.700	Valid
Z.5	0.835	0.700	Valid

Based on the analysis results above, it can be concluded that each variable indicator has an outer loading value > 0.700 , which means that each indicator is considered valid, as shown in Table 1 regarding the outer loading results.

Discriminant Validity

In this test, two methods were used. The first method involves analyzing the cross loading values, while the second method entails examining the Average Variance Extracted (AVE). By using the first method through cross loading, if the cross loading values of the indicators meet the criteria for discriminant validity. The following are the analysis results obtained using SmartPLS 3 software:

Table 2 Cross Loading

Indicator	Compensation (X ₁)	Work Environment (X ₂)	Employee Performance (Y)	Job Satisfaction (Z)
X _{1.1}	0.849	0.552	0.525	0.51
X _{1.2}	0.803	0.559	0.596	0.579
X _{1.3}	0.838	0.556	0.543	0.589
X _{1.4}	0.801	0.775	0.48	0.526
X _{1.5}	0.785	0.619	0.513	0.523
X _{2.1}	0.609	0.840	0.52	0.537
X _{2.2}	0.678	0.879	0.588	0.533
X _{2.3}	0.684	0.866	0.562	0.529
X _{2.4}	0.557	0.781	0.755	0.728
X _{2.5}	0.608	0.822	0.644	0.683
Y.1	0.580	0.607	0.874	0.744
Y.2	0.509	0.616	0.812	0.669
Y.3	0.535	0.64	0.870	0.73
Y.4	0.602	0.688	0.881	0.714
Y.5	0.563	0.643	0.823	0.593
Z.1	0.480	0.544	0.593	0.796
Z.2	0.454	0.582	0.619	0.807
Z.3	0.571	0.577	0.518	0.744
Z.4	0.551	0.652	0.719	0.816
Z.5	0.617	0.586	0.767	0.835

Overall, all indicators showed cross loading values above 0.5 and not exceeding 0.9, in accordance with the guidelines. This indicates good discriminant validity and demonstrates that each indicator can effectively distinguish between the measured variables.

Average Variance Extracted (AVE)

In addition to analyzing the cross loading values, a comparison was also made between the Average Variance Extracted (AVE) values of each variable and the correlations among the variables. If the AVE value is higher than the existing correlations, then the variable can be considered to have a good relationship. It is recommended that in this measurement, the AVE value should be greater than 0.5. The following are the analysis results obtained using SmartPLS 3:

Table 3 Nilai Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)	Explanation
Compensation (X ₁)	0.665	Valid
Work Environment (X ₂)	0.703	Valid
Employee Performance (Y)	0.726	Valid
Job Satisfaction (Z)	0.641	Valid

Based on the data from the table above, all analyzed variables demonstrate valid AVE values, with each exceeding 0.5. These AVE values indicate that each variable is capable of explaining a significant proportion of the variance of its indicators, thereby being considered valid for further analysis.

Reliability

Reliability testing can be analyzed through the Cronbach's Alpha value, which is used to measure the upper and lower scores, as well as Composite Reliability to assess the true reliability of a construct or variable. A response from respondents in a questionnaire is considered reliable if the Composite Reliability value is greater than 0.700.

Composite Reliability

Table 4 Composite Reliability Result

Variable	Composite Reliability (rho_A)	Composite Reliability (rho_c)	Explanation
Compensation (X ₁)	0.876	0.908	Realibel
Work Environment (X ₂)	0.901	0.922	Realibel
Employee Performance (Y)	0.908	0.93	Realibel
Job Satisfaction (Z)	0.866	0.899	Realibel

Regarding to the table, the Composite Reliability values, all analyzed variables demonstrate a good level of reliability. It can be seen that the variables of product quality, price, purchase decision, and satisfaction in this study have Composite Reliability values greater than 0.700. Overall, all variables in this table meet the reliability criteria and can be used for further analysis.

Cronbach's Alpha

Table 5 Cronbach's Alpha

Variable	Cronbach's Alpha	Explanation
Compensation (X ₁)	0.874	Realibel
Work Environment (X ₂)	0.895	Realibel
Employee Performance (Y)	0.906	Realibel
Job Satisfaction (Z)	0.86	Realibel

Regarding to the table, the Cronbach's Alpha values, all analyzed variables demonstrate a very good level of reliability. The results of the Cronbach's Alpha test indicate that each variable in this study has a Cronbach's Alpha value greater than 0.700. Overall, all variables in this table meet the reliability criteria and can be used for further analysis.

Structural Model (Inner Model)

Coefficient of Determination (R-Square)

The criteria for the R-Square value indicate that an R-Square value above 0.75 signifies a strong model, a value above 0.50 indicates a moderate model, and an R-Square value of 0.25 or below is considered weak.

Table 6 R-Square

Variable	R-Square	Explanation
Employee Performance (Y)	0.711	Moderat
Job Satisfaction (Z)	0.575	Moderat

Based on the table, it can be seen that the employee performance variable (Y) has an R-Square value of 0.711. According to the existing criteria, this value indicates that the model used is moderate, as it is above 0.50 but below 0.75. Meanwhile, the job satisfaction variable (Z) has an R-Square value of 0.575, which also falls into the moderate category. Both of these variables have a sufficiently adequate explanatory power; however, there is still potential for improvement, as the R-Square value has not reached the strong category (above 0.75) and indicates that there may be other factors that could significantly influence the results. (Yuhannah et al., 2021)

Path Coefficient

This model testing is conducted to examine the direct relationship between two variables, namely the independent and dependent variables, without involving mediating variables. The direction of the influence between the variables can be categorized as positive if the original sample value is greater than 0. Conversely, if the original sample value is less than 0, the relationship is considered negative.

Table 7 Path Coefficient

Influence of Variables	Original Sample	Direction of the Relationship
Compensation (X_1) - Employee Performance (Y)	0.064	Positif
Compensation (X_1) - Job Satisfaction (Z)	0.275	Positif
Work Environment (X_2) - Employee Performance (Y)	0.295	Positif
Work Environment (X_2) - Job Satisfaction (Z)	0.531	Positif
Job Satisfaction (Z) - Employee Performance (Y)	0.552	Positif

Based on the table show the relationships between variables in the internal model, with the following details: (1) there is a negative relationship between compensation and employee performance, where an increase in compensation of 1 unit will lead to a decrease in employee performance of 0.064 units. (2) Next, a positive relationship is identified between compensation and job satisfaction, indicating that if compensation increases by 1 unit, job satisfaction will also increase by 0.275 units. (3) The next relationship demonstrates a positive influence between the work environment and employee performance, where an increase in the work environment of 1 unit will enhance employee performance by 0.295 units. (4) Additionally, a positive relationship is also established between the work environment and job satisfaction, where an increase in the work environment of 1 unit will increase job satisfaction by 0.531 units. (5) Finally, the positive relationship between job satisfaction and employee performance indicates that when job satisfaction increases by 1 unit, employee performance will also increase by 0.552 units.

Hypothesis Testing

Hypothesis testing can be stated as being conducted based on specific statements regarding population parameters derived from sample statistics. A hypothesis is accepted if the significance value is less than 0.05. The Bootstrapping procedure is used to obtain the t-statistic and p-values. The

relationship between variables is considered significant if p-values < 0.05 or t-statistics > 1.98. Conversely, if the t-statistic < 1.98, it is deemed not significant.

Table 8 Hypothesis Testing

Variable	<i>T Statistics</i> (<i>O/STDV</i>)	<i>P Values</i>	Explanation
Compensation (X ₁) - Employee Performance (Y)	0.904	0.367	Positive and Not Significant
Compensation (X ₁) - Job Satisfaction (Z)	2.896	0.004	Positif and Significant
Work Environment (X ₂) - Employee Performance (Y)	3.019	0.003	Positif and Significant
Work Environment (X ₂) - Job Satisfaction (Z)	6.284	0	Positif and Significant
Job Satisfaction (Z) - Employee Performance (Y)	5.676	0	Positif and Significant

Using the Bootstrapping procedure to obtain the t-statistic and p-values. The results show that the relationship between Compensation (X₁) and Employee Performance (Y) has a t-statistic of 0.904 < t-table 1.97 and a p-value of 0.367 > 0.05 (5%), meaning this hypothesis is not accepted because the significance value is greater than 0.05. Conversely, the relationship between Compensation (X₁) and Job Satisfaction (Z) shows a t-statistic of 2.896 > t-table 1.97 and a p-value of 0.004 < 0.05 (5%), indicating that this hypothesis is accepted. The relationship between Work Environment (X₂) and Employee Performance (Y) shows a t-statistic of 3.019 > t-table 1.97 and a p-value of 0.003 < 0.05 (5%), which also indicates that this hypothesis is accepted. The relationship between Work Environment (X₂) and Job Satisfaction (Z) has a t-statistic of 6.284 > t-table 1.96 and a p-value of 0 < 0.05 (5%), meaning this hypothesis is accepted. Finally, the relationship between Job Satisfaction (Z) and Employee Performance (Y) shows a t-statistic of 5.676 > t-table 1.97 and a p-value of 0 < 0.05 (5%), indicating that this hypothesis is accepted

Mediation Test

The mediation analysis tests the hypothesized causal chain, where one variable X affects a second variable Z, which in turn influences a third variable Y (Rahadi, 2023:92). Mediation occurs when the mediator variable acts as a link between two related constructs in the research model.

Table 9 Mediation Test

Variable	<i>T Statistics</i>	<i>P Values</i>	Explanation
Compensation (X ₁) → Job Satisfaction (Z) → Employee Performance (Y)	2.741	0.006	Positif and Significant
Work Environment (X ₂) → Job Satisfaction (Z) → Employee Performance (Y)	3.598	0	Positif and Significant

Based on the mediation test results above, the relationship between Compensation (X₁) and Employee Performance (Y) through Job Satisfaction (Z) has a t-statistic of 2.741 and a p-value of 0.006, indicating a positive and significant effect. Furthermore, the relationship between Work Environment (X₂) and Employee Performance (Y) through Job Satisfaction (Z) shows positive and significant results, with a t-statistic of 3.598 and a p-value of 0.

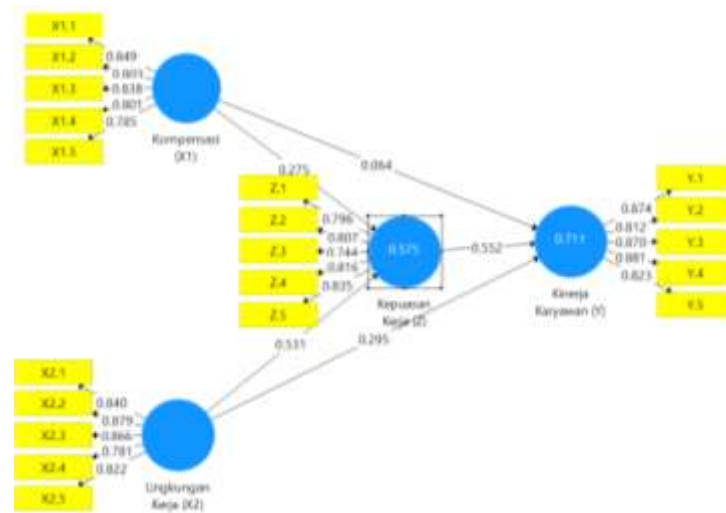


Figure 1 PLS Diagram

Based on the image above, which shows the relationship between independent and dependent variables, as well as the indicators for each variable in this study, there is a relationship between compensation and the work environment on employee performance, mediated by job satisfaction. The research was conducted on employees of Elresas Folding Mat Company.

Discussion

The influence of compensation on employee performance.

Based on the data analysis using SmartPLS 3 with 153 respondents, it was found that compensation (X_1) does not have a significant effect on employee performance (Y), with a p-value of 0.367 ($\alpha = 0.05$) and a t-statistic of 0.904 (which is lower than the t-table value of 1.97). The hypothesis regarding a significant influence of compensation is rejected. Compensation was measured through indicators such as salary, wages, incentives, benefits, and facilities, with salary being the most influential indicator (0.849). Although the company meets wage standards, the insignificance suggests that other factors, such as motivation and work environment, may be more dominant. Therefore, the company needs to evaluate its compensation system and consider other aspects of human resource management. This finding is consistent with the research by Ratnasari et al. (2020), which indicates that compensation has a positive but not significant effect on employee performance.

The influence of the work environment on employee performance.

Based on data analysis using SmartPLS 3 with 153 respondents, it was found that the Work Environment variable has a t-statistic of 3.019 and a p-value of 0.003, indicating a positive and significant effect on employee performance. This means that the better the work environment, the higher the employee performance, with a positive original sample value of 0.295. The hypothesis regarding the significant influence of the Work Environment is accepted. The work environment was measured through indicators such as work structure, responsibility, attention and support, teamwork, and communication smoothness, with work responsibility as the most influential indicator (0.879). A conducive environment encourages collaboration and enhances productivity and job satisfaction, which is why companies need to create a supportive atmosphere. These findings align with the research by Kresmawan et al. (2021) and Fithri et al. (2019), which indicate that attention to the work environment is an important investment for the company's future.

The influence of compensation on employee performance, mediated by job satisfaction

Based on data analysis using SmartPLS 3 with 153 respondents, it was found that job satisfaction plays a significant mediating role between compensation and employee performance, with a t-statistic of 2.741 and a p-value of 0.006. Appropriate compensation can enhance job satisfaction, which in turn improves employee performance, thereby accepting the hypothesis. Job satisfaction indicators, such as the payment system, indicate that the payment system has the greatest influence (0.796). Employees who are satisfied with their compensation are more motivated, making compensation a driver of both satisfaction and performance. These findings align with the research by Imran et al. (2023) and Hizam et al. (2022), which emphasize that job satisfaction strengthens the relationship between the work environment and performance.

The influence of the work environment on employee performance, mediated by job satisfaction

Based on data analysis using SmartPLS 3 with 153 respondents, it was found that the work environment has a positive and significant effect on employee performance through job satisfaction, with a t-statistic of 3.598 and a p-value of 0.000. The original sample value for this relationship is 0.531, indicating that job satisfaction serves as a significant mediator. A favorable work environment can enhance employee satisfaction, which positively impacts their performance. These findings are consistent with the research by Hariri et al. (2024) and Siregar et al. (2023), which demonstrate that job satisfaction can be an effective mediator between the work environment and performance.

CONCLUSION

Based on data analysis using the PLS (Partial Least Squares) method with SmartPLS 3 software, several conclusions can be drawn from this research. First, compensation has a positive but not significant effect on employee performance at Elresas folding mat company, indicating that the compensation provided does not guarantee an improvement in performance. Second, the work environment has a positive and significant effect on employee performance, suggesting that as the conditions of the work environment improve, employee performance will also increase. Third, compensation positively and significantly affects employee performance through job satisfaction, meaning that appropriate and adequate compensation leads to greater employee satisfaction, ultimately enhancing performance. Lastly, the work environment also positively and significantly impacts employee performance through job satisfaction, indicating that improved work conditions result in greater employee satisfaction, which in turn enhances performance.

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