

# Exploring the Mediating Effect of Job Satisfaction on the Compensation Performance Relationship in a Fast-Moving Consumer Goods Company

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## Abstract

This study highlights the importance of human resources in maintaining company performance and sustainability. In the context of a Fast-Moving Consumer Goods Company, compensation is viewed as a strategic factor that can improve employee motivation and work results. Job satisfaction is considered a potential link between compensation and employee performance. This study used a quantitative approach with 150 respondents who had worked for at least one year. Data were analyzed using SmartPLS 4.0. The results showed that compensation had a positive and significant effect on job satisfaction, and job satisfaction had a positive effect on employee performance. In addition, compensation was proven to have a significant direct effect on employee performance and also had an indirect effect through job satisfaction as a mediating variable.

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## INTRODUCTION

Modern companies are required to maintain high performance and competitive advantage amidst rapidly changing industry dynamics. One of the most crucial elements determining organizational success is the quality of human resources, as achieving company goals is highly dependent on employee contributions. Performance, as explained by Afandi (2018:83), is the work results achieved by individuals or groups based on their authority and responsibilities, carried out ethically and in accordance with the law. Therefore, organizations strive to develop employee potential through training, competency development, providing a conducive work environment, and providing appropriate compensation. However, performance is not solely determined by competency; it is also influenced by various other factors.

Walewangko et al. (2019) categorize performance determinants into three: the internal organizational environment, the external environment, and internal employee factors. The internal environment includes organizational strategy, management systems, resource support, and compensation policies, all of which influence how effectively employees can perform their duties. External factors such as family circumstances or social pressure can also disrupt work focus. Furthermore, internal factors such as talent, physical condition, character, and psychological aspects also determine an employee's ability to meet job demands. Taking these various factors into consideration, companies need to manage human resources strategically, including monitoring potential, understanding employee needs, and creating work processes that support productivity.

One important aspect of improving performance is job satisfaction. According to Prasetio et al. (2019), job satisfaction reflects employees' emotional responses to their work, which influences how they evaluate the organization and the tasks assigned. Dissatisfaction at work often leads to dysfunctional behaviors such as absenteeism, decreased productivity, and even turnover. To minimize these risks, companies need to provide a conducive work environment, supporting facilities, adequate appreciation, and realistic targets. Satisfaction

levels are individual and influenced by personal values. When there is a match between expectations and working conditions, employees will demonstrate higher commitment and motivation.

Compensation is a key factor in shaping job satisfaction. Mondy (2018:88) defines compensation as all rewards received by employees in return for their contributions. Compensation not only serves as a reward but also influences motivation, stability, and work discipline. Hasibuan (2019:89) emphasized that compensation aims to create satisfaction, maintain motivation, and build effective work relationships. Several commonly used compensation systems time-based, product-based, and piecework are all designed to ensure rewards align with job characteristics (Hasibuan, 2019:90). Furthermore, companies must adhere to minimum wage standards to ensure employee rights are met. According to data from the Badan Pusat Statistik (2023), the minimum wage in Surabaya City reached IDR 4,525,479.19, while the average minimum wage in East Java Province was IDR 2,040,244.30. By considering these standards, companies are expected to provide fair compensation, thereby increasing job satisfaction and performance.

Optimal performance is difficult to achieve if employees lack satisfaction or see a clear connection between their efforts and the compensation they receive. Some employees tend to perform at a standard level if they do not see sufficient incentives to improve their performance. This demonstrates the importance of compensation as a factor that can shape perceptions of fairness and influence work behavior (Khotimah & Adiwati, 2024). In the context of a fast-moving consumer goods company, the interaction between compensation, job satisfaction, and performance is evident. Field observations and informal interviews with employees indicate that some employees feel that individual contributions do not significantly influence their compensation, especially when the appraisal system emphasizes group achievement over individual performance. Some employees also believe that bonuses are not large enough to encourage performance improvement, so they prefer to work at minimum standards. These findings indicate that a mismatch between the compensation system and employee expectations can reduce motivation, satisfaction, and ultimately performance.

Considering these issues, it is important to further examine the relationship between compensation, job satisfaction, and employee performance, as well as how job satisfaction acts as an intervening variable. A better understanding of the mechanism of the relationship between these variables can help companies design more effective compensation policies to improve employee motivation and performance. Based on this explanation, this study aims to analyze the relationship between compensation, job satisfaction, and employee performance in a fast-moving consumer goods company, focusing on the role of job satisfaction as an intervening variable mediating the effect of compensation on employee performance. This research is expected to provide a more comprehensive understanding of the mechanisms by which compensation policies can increase job satisfaction and ultimately drive optimal employee performance.

## LITERATURE REVIEW

This research is grounded in the theoretical foundation of human resource management, which views employees as strategic assets in achieving organizational goals. Human resources encompass individuals with specific expertise and contribute to the achievement of company goals through operational roles ranging from planning to evaluation. Hasibuan (2019) defines human resource management as a field of management that studies the relationships and roles of individuals within an organization, while Mangkunegara (2015) emphasizes the processes of planning, organizing, coordinating, implementing, and supervising, from procurement to separation of labor. Both perspectives emphasize the importance of systematic human resource management to support company effectiveness.

Within this framework, this research utilizes a conceptual foundation that focuses on three main variables: compensation, job satisfaction, and employee performance. These three were chosen because they are closely related to creating motivation, job satisfaction, and optimal output. Compensation, according to Hasibuan (2019), is the direct and indirect reward provided by a company to employees in return for their contributions. Job satisfaction is an emotional response to work and reflects the extent to which employee needs and expectations are met. Meanwhile, employee performance represents the work results achieved and is heavily influenced by organizational treatment, motivation, and working conditions.

Human resource management encompasses various functions that support the effective utilization of employee potential (Hasibuan, 2019). The planning function aims to ensure workforce needs align with company goals.

The organizing function regulates work relationships, the division of tasks, and coordination between employees. Directing is necessary to provide instructions and motivation for effective work completion, while controlling ensures activities comply with company standards and procedures. Employee procurement focuses on recruiting competent individuals, while development is carried out through training and education to enhance technical and conceptual skills. Compensation is a crucial element in influencing employee motivation and loyalty, while the integration and maintenance function ensures a balance between company interests and employee needs. Finally, discipline is crucial for ensuring the consistent achievement of organizational goals.

## Compensation

Compensation is all forms of remuneration received by employees in exchange for their contributions to the organization. Mondy (2018:247) defines it as the total reward received by employees for services rendered, while Rivai (2019) asserts that compensation reflects remuneration for employee contributions to the company. Sutrisno (2019) views compensation as all remuneration received by employees for their labor or services rendered, and Dessler (2020) adds that compensation encompasses all forms of payment and rewards arising from the employment relationship. Hasibuan (2019:84) also emphasizes that compensation includes direct and indirect income in the form of money or goods.

Hasibuan (2019:89) lists several key functions of compensation, such as building work bonds, creating job satisfaction, improving discipline, maintaining employee stability, and complying with regulatory and union requirements. Kasmir (2018:236–238) adds eight specific objectives, including fulfilling employee rights, providing a sense of fairness, attracting quality talent, retaining employees, providing rewards, controlling costs due to turnover, complying with government regulations, and preventing compensation-related conflicts. There are several compensation systems that companies can implement. According to Hasibuan (2019:90), a time-based system determines compensation based on length of service, while a results-based system calculates compensation based on the amount of work completed. A piecework system combines work volume, difficulty level, and equipment requirements so that remuneration depends on individual abilities.

Mondy (2018:248) explains that compensation indicators can be grouped into two types: financial and non-financial. Financial compensation includes base salary, performance-based awards, incentives, and various benefits such as insurance and pension plans. Non-financial compensation, on the other hand, relates to non-monetary aspects, such as appreciation for employee performance, a supportive work environment, more flexible work arrangements, and opportunities for employees to express their opinions.

## Job Satisfaction

Job satisfaction is an employee's emotional response to their work and work environment. Ozturk and Karakus (2022) define it as a positive reaction reflecting feelings of accomplishment and fulfillment in their work. Hu et al. (2019) state that job satisfaction is an affective response that indicates the extent to which a job meets an employee's needs and expectations. Wulan et al. (2019) add that job satisfaction encompasses assessments of salary, work environment, career development opportunities, work relationships, and job security. Hasan et al. (2019) also emphasize that job satisfaction is related to income, promotion opportunities, recognition, working conditions, and relationships with coworkers. Prasetio et al. (2019) highlight that job satisfaction is reflected in emotional responses evident in employee behavior, while Skelton et al. (2019) state that job satisfaction can be enhanced through managerial policies that encourage synergy between superiors and subordinates. Afandi (2018) emphasizes that job satisfaction is an effective reaction to various aspects of work.

Afandi (2018:73) identifies five factors that influence job satisfaction: need fulfillment, discrepancies between expectations and actual outcomes, achievement of work values, perceptions of fairness, and organizational culture. Widyastuti et al. (2021) add that good relationships with coworkers and superiors, a supportive work environment, career opportunities, and recognition for work performance contribute positively to job satisfaction. Non-monetary factors such as social support also play a significant role.

According to Afandi (2018), indicators of job satisfaction can be seen from the level of satisfaction with the job itself, wages received, promotion opportunities, relationships with superiors, and relationships with coworkers. These indicators help measure the level of comfort and fulfillment of employees' needs in their work.

## Employee Performance

Employee performance reflects the work results of individuals or groups within their authority and responsibilities. Afandi (2018:83) states that performance must be achieved legally and in line with the organization's ethics and goals. Aftab et al. (2018) add that performance includes the ability to complete tasks, the quality and quantity of work output, attendance rates, the ability to work collaboratively, and target achievement.

Various factors influence employee performance. According to Fernandez et al. (2020), a comfortable work environment (both physical and psychological) encourages work effectiveness. Adequate salaries and rewards contribute to motivation, while good leadership provides the direction and support employees need (Evitaningrum & Sardjono, 2024). Other factors such as technical and non-technical skills, motivation, job satisfaction, and human resource management policies (recruitment, training, evaluation, and development) also play a significant role.

Walewangko et al. (2019) categorize factors influencing performance into three categories: the internal organizational environment, the external organizational environment, and internal employee factors. The internal environment includes the compensation system, organizational strategy, and resource support. The external environment encompasses conditions or events outside the organization that impact employees. Internal factors originate from within the employee, such as talent, personal traits, and physical and psychological conditions.

Performance assessments serve a strategic purpose. Abdullah et al. (2019) state that performance evaluations provide constructive feedback to identify employee strengths and weaknesses, assess the effectiveness of training programs, and support decision-making regarding promotions, rewards, or termination. According to Afandi (2018:89), performance indicators include the quantity of work output, the quality of work output, the efficiency of resource use, and discipline in adhering to organizational rules. These four indicators serve as the primary measures for objectively assessing employee performance.

## The Relationship Between Concepts

### *The Relationship Between Compensation and Job Satisfaction*

Compensation is a crucial factor in creating employee job satisfaction. This is supported by several studies showing a relationship between compensation and job satisfaction. Employee dissatisfaction with their compensation can lead to feelings of unappreciation and a lack of motivation at work. Conversely, employees who are satisfied with their compensation tend to have higher motivation, better performance, and greater loyalty to the company. Furthermore, a transparent compensation system can also increase employee trust in management and strengthen the work culture. Therefore, management needs to consider the importance of providing fair compensation commensurate with employee contributions to achieving company goals to retain qualified employees and increase overall company productivity. Research by Iroth, Lengkong, and Dotulong (2018) found that compensation has a positive effect on job satisfaction. Another study by Pratama (2019) suggests that compensation has an impact on job satisfaction. Based on the explanation above, the first hypothesis of this study can be formulated as follows:

H<sub>1</sub>: Compensation has an effect on job satisfaction.

### *The Relationship Between Job Satisfaction and Employee Performance*

Job satisfaction and employee performance are two important, interrelated factors in the workplace (Khotimah & Adiwati, 2024). Employees who are satisfied with their jobs perform better, are more productive, and are more engaged in their work. Job satisfaction can influence employee perceptions of the quality of the work environment and relationships with coworkers and superiors (Evitaningrum & Sardjono, 2024). Employees who feel comfortable with their work environment and have good relationships with their coworkers and superiors perform better. It is important for organizations to consider employee job satisfaction as a factor that can improve their performance. According to Abdullah et al. (2019), job satisfaction is defined as a person's level of satisfaction with their job, reflected in their positive or negative feelings about their work. Job satisfaction influences employee performance because satisfied employees tend to be more motivated to work

harder and maintain good work performance. Furthermore, job satisfaction can also increase employee engagement in the organization, which in turn can improve overall organizational performance. In a study by Abdirahman et al. (2018) stated that job satisfaction is an employee's feelings of support or dissupport regarding their work and working conditions. Meanwhile, according to Sultana et al. (2021), job satisfaction influences employee performance. Employees who are satisfied with their jobs tend to perform better, are more productive, and are more engaged in their work. Furthermore, job satisfaction also has a positive effect on employee loyalty and intention to remain with the same company. Based on the explanation above, the second hypothesis of this study can be formulated as follows:

H<sub>2</sub>: Job satisfaction influences employee performance.

### Compensation Relationship to Employee Performance

Compensation is one of the variables that affect employee performance. Adequate compensation can have a strong influence on employees to work better and perform better. Employees who feel financially rewarded will be more motivated to complete the assigned tasks. Fair compensation can also give employees the impression that the organization values their contribution. This can increase employee motivation and encourage them to continuously improve their performance. This will tend to bring out the responsibility for individual performance in each employee.

Compensation affects employee performance in a company, if compensation is given fairly and appropriately, employee performance can increase (Yinawati, 2016). Other sources say that compensation is also the main driver of employees to work, because with financial compensation employees can meet their needs, in other words compensation can affect employee performance (Dewi, 2016). Based on the explanation above, the third hypothesis of this study can be formulated:

H<sub>3</sub>: Compensation affects employee performance.

### The Relationship of Compensation to Employee Performance through Job Satisfaction

The relationship between compensation, job satisfaction and employee performance has become an important focus in organizational behavior studies. Various studies have shown that fair and competitive compensation not only serves as a reward for employee contributions, but also influences how employees rate their overall work experience. When compensation is perceived to match the workload, responsibilities and expectations of employees, the level of job satisfaction tends to increase. This is in line with the view that job satisfaction plays a crucial psychological role in determining how employees respond to organizational treatment.

Furthermore, job satisfaction is not only an outcome of compensation but also acts as a mechanism that bridges compensation with performance. Employees who feel valued through proper compensation will experience increased intrinsic and extrinsic motivation, which in turn encourages them to perform more optimally. Thus, the effect of compensation on performance is not only direct but works through increased job satisfaction as a mediating variable. This is reinforced by the findings of Darma and Supriyanto (2017), which state that compensation has a positive and significant influence on employee performance when job satisfaction is present as an intermediary. Based on the explanation above, the fourth hypothesis of this study can be formulated:

H<sub>4</sub>: Compensation affects employee performance through job satisfaction.

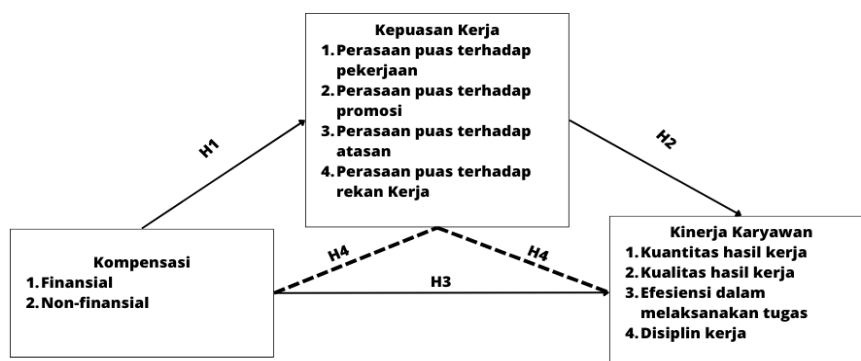


Figure 1. Research Model

## RESEARCH METHOD

This study was conducted to examine the effect of compensation on employee performance by including job satisfaction as a variable that bridges the relationship. The study used a quantitative approach with a population of all sales division employees in a Fast-Moving Consumer Goods (FMCG) company totaling 150 people. The sampling technique used was saturated sampling, so that all members of the population were used as respondents with a minimum work period of one year.

Primary data was collected through a Google Form-based questionnaire distributed through several communication channels such as WhatsApp, Line, and email. The research instrument used a five-point Likert scale, ranging from “strongly agree” to “strongly disagree,” which is commonly used to measure respondents' perceptions and attitudes in a more structured manner (Joshi et al., 2015). Respondents were also given an explanation that the data they provided was only used for research purposes. After all responses were collected, the data were analysed using SmartPLS. The Partial Least Squares method was chosen because it is more flexible and does not demand many statistical assumptions as in conventional regression, making it suitable for use in social and business research (Ghozali & Latan, 2015). The analysis was conducted through two main stages. The first stage assesses the quality of the research instrument through validity and reliability testing on the outer model. The next stage evaluates the inner model to assess the relationship between concepts while testing hypotheses, including the mediating role of job satisfaction in the relationship between compensation and employee performance.

The compensation variable (X) is measured based on the concept proposed by Mondy (2018), who defines it as the overall reward employees receive for their contributions. Compensation measurement encompasses both financial and non-financial aspects. Financial aspects include employee perceptions of the appropriateness of salary to workload, recognition for achievement, and the adequacy of bonuses or incentives. Meanwhile, non-financial aspects include the extent to which employees feel psychologically valued, the perceived comfort of their work environment, the flexibility provided by the company in work arrangements, and the freedom to express opinions. All these indicators are assessed using a five-point Likert scale.

The employee performance variable (Y) is measured using Afandi (2018), who defines performance as the work results achieved by an individual in accordance with organizational responsibilities and standards. Performance measurement encompasses the quality and quantity of work output, including the ability to meet targets, skills in completing tasks according to established standards, efficiency in time use, and compliance with work rules and guidelines. Each aspect is represented in the form of statements describing employee behavior and work results in the context of daily operations.

The job satisfaction variable (Z) is operationalized based on Afandi's (2018) definition of employees' emotional responses to various aspects of their work. Job satisfaction is assessed through feelings of satisfaction with the work performed and its suitability to their skills, satisfaction with wages received, assessments of fairness and promotion opportunities, perceptions of support and trust provided by superiors, and satisfaction with relationships and collaboration with coworkers. All indicators are measured using a five-point Likert scale to capture respondents' level of agreement consistently.

## RESULTS AND DISCUSSION

This study involved 150 respondents, all of whom were sales employees and had worked for at least one year. Data were collected through a Google Form questionnaire and then classified by gender, highest level of education, length of service, marital status, and domicile. The majority of respondents were female, at 117 (78.6%), while 33 (21.4%) were male. This composition reflects the sales division's tendency to recruit more female workers. In terms of domicile, the majority of respondents resided in the Bojonegoro area, in line with the location of the sales division's operational office in that area. Variations in educational background, length of service, and marital status also provided a more comprehensive picture of the characteristics of the workforce involved in this study.

In this study, researchers will use two types of tests in analyzing the Partial Least Square model, namely testing the outer model and inner model. Outer model testing is carried out to determine the validity and reliability of the indicators used in the study on the latent variable of each indicator. While testing the inner model is used

to determine how much influence each variable has in the study. The outer model evaluation in this study was conducted to ensure that each indicator adequately represents the latent variable. Convergent validity was tested using two main criteria: outer loading value and Average Variance Extracted (AVE). Referring to Hair et al. (2019), an indicator is considered to meet convergent validity if its outer loading value is above 0.50. Furthermore, a construct is also considered valid if the AVE value exceeds 0.50, indicating that more than half of the indicator's variance can be explained by the latent variable.

The analysis results show that all indicators in the three variables have outer loading values above the 0.50 threshold. The Compensation variable has outer loading values ranging from 0.704 to 0.883, with an AVE value of 0.643, thus meeting convergent validity. For the Job Satisfaction variable, outer loading values range from 0.644 to 0.846, with an AVE value of 0.579. Although there is an indicator with the lowest outer loading value of 0.644, this value is still above the minimum threshold, so the construct is still considered valid. The Employee Performance variable also showed consistent results, with outer loading values ranging from 0.649 to 0.846 and an AVE value of 0.604. Overall, the evaluation results indicate that all constructs and indicators used in this study meet the requirements for convergent validity, making them suitable for use in the next stage of the structural model analysis.

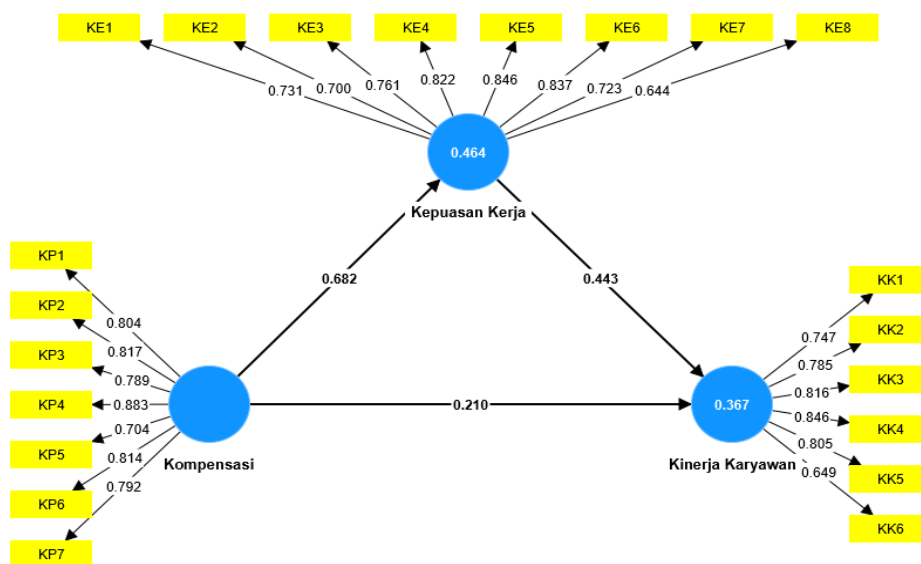


Figure 2. Convergent Validity Test Result

Table 1. Outer Loading and AVE

Variables and AVE	Indicator	Outer Loading	
<b>Compensation - KP</b> (AVE = 0.643)	KP 1	0.804	Valid
	KP 2	0.817	Valid
	KP 3	0.789	Valid
	KP 4	0.883	Valid
	KP 5	0.704	Valid
	KP 6	0.814	Valid
	KP 7	0.792	Valid
<b>Job Satisfaction - KE</b> (AVE = 0.579)	KE1	0.731	Valid
	KE2	0.700	Valid
	KE3	0.761	Valid
	KE4	0.822	Valid
	KE5	0.846	Valid
	KE6	0.837	Valid
	KE7	0.723	Valid
	KE8	0.644	Valid
<b>Employee Performance - KK</b> (AVE = 0.604)	KK1	0.747	Valid
	KK2	0.785	Valid
	KK3	0.816	Valid
	KK4	0.846	Valid
	KK5	0.805	Valid
	KK6	0.649	Valid

Discriminant validity can be seen from the cross-loading value of each indicator on latent variables. If the cross-loading value of the latent variable in question is greater than other latent variables, then the indicator can be said to be a good discriminant validity. The following is the value of the cross loading of this study.

Table 2. Cross Loading

Indicators	KE	KK	KP	
KE1	<b>0.731</b>	0.546	0.466	Valid
KE2	<b>0.700</b>	0.396	0.430	Valid
KE3	<b>0.761</b>	0.350	0.554	Valid
KE4	<b>0.822</b>	0.465	0.558	Valid
KE5	<b>0.846</b>	0.449	0.585	Valid
KE6	<b>0.837</b>	0.480	0.619	Valid
KE7	<b>0.723</b>	0.458	0.518	Valid
KE8	<b>0.644</b>	0.410	0.380	Valid
KK1	0.512	<b>0.747</b>	0.488	Valid
KK2	0.498	<b>0.785</b>	0.431	Valid
KK3	0.497	<b>0.816</b>	0.423	Valid
KK4	0.480	<b>0.846</b>	0.407	Valid
KK5	0.387	<b>0.805</b>	0.328	Valid
KK6	0.282	<b>0.649</b>	0.230	Valid
KP1	0.564	0.386	<b>0.804</b>	Valid
KP2	0.611	0.449	<b>0.817</b>	Valid
KP3	0.539	0.342	<b>0.789</b>	Valid
KP4	0.553	0.424	<b>0.883</b>	Valid
KP5	0.487	0.408	<b>0.704</b>	Valid
KP6	0.525	0.448	<b>0.814</b>	Valid
KP7	0.535	0.405	<b>0.792</b>	Valid

Based on the results of cross loading in table 4.6, it can be said that there are good discriminant validity results, which can be seen with the statement items on latent variables having a higher correlation value than other variables. This means that the value of the statement item has received the highest value in its variable.

Table 3. Composite Reliability and Cronbach Alpha

Variable	Composite Reliability (rho_a)	Cronbach Alpha	
KP	0.909	<b>0.894</b>	Reliable
KE	0.901	<b>0.870</b>	Reliable
KK	0.882	<b>0.907</b>	Reliable

Based on table 3, all variables used have met the standard composite reliability value of  $> 0.6$  and Cronbach alpha of  $> 0.6$ . This means that all variables used in this study are reliable. Inner model testing can be done by looking at the value of R-square, this value illustrates the influence of each variable on other variables based on the research model. The amount of R2 is seen from the value range of 0 (zero) to 1 (one), where the higher the R2 value, the better, and the greater the influence obtained from the dependent variable.

Table 4. R<sup>2</sup>

Variable	R-square	R-square adjusted
Job Satisfaction	0.464	0.461
Employee Performance	0.367	0.358

Based on the table above, the r-square value of the job satisfaction variable is 0.461. This means that the job satisfaction variable can be explained by the compensation variable by 46.1%. While the r-square value of employee performance is 0.358. This means that the employee performance variable can be explained by the compensation and job satisfaction variables by 35.8%.

Based on Hair et al (2019), predictive relevance is a method used to see whether the inner model can provide predictive relevance of good value or not. A study can be said to be good if the predictive relevance model is more than 0 (zero). From Table 5, it can be seen that the value of Q2 is more than 0 (zero) so that this study provides good predictive relevance.

Hypothesis testing in this study was conducted using the bootstrapping procedure in the SmartPLS 4.0 application, taking into account the t-statistic and p-values. This method allows for analysis of the strength and

direction of the relationships between variables in the research model. In general, these relationships consist of direct effects and indirect effects. A direct effect occurs when there is a direct path connecting two latent variables, and its magnitude can be seen from the estimated coefficient of the relationship. Meanwhile, an indirect effect occurs when one variable influence another through one or more intermediary variables according to the path in the structural model. The results of the bootstrapping test are presented in the following table as a basis for interpreting the intervariable influences.

**Table 5.** Q<sup>2</sup> Result

Variable	Q <sup>2</sup> predict
Job Satisfaction	0.453
Employee Performance	0.248

**Table 6.** Path Coefficient Results

	Original Sample	Standard Deviation	T-Statistic	P-Values	
Compensation → Job Satisfaction	0.682	0.053	12.776	0.000	Accepted
Job Satisfaction → Employee Performance	0.443	0.106	4.173	0.000	Accepted
Compensation → Employee Performance	0.210	0.100	2.088	0.037	Accepted

**Table 7.** Specific Indirect Effect Results

	Original Sample	Standard Deviation	T-Statistic	P-Values	
Compensation → Job Satisfaction → Employee Performance	0.302	0.079	3.824	0,000	Accepted

The results of hypothesis testing using the bootstrapping procedure in SmartPLS showed that all relationships in the research model were significant. The first finding confirmed that compensation had a positive effect on job satisfaction. The t-statistic of 12.776, which far exceeded the critical threshold of 1.96, and the p-value of 0.000, which was below 0.05, indicated that adequate compensation consistently increased employee satisfaction levels. This finding supports the assumption that compensation is a crucial factor in shaping employees' affective perceptions of their jobs.

Furthermore, job satisfaction was shown to have a significant effect on employee performance. This was reflected in the t-statistic of 4.173 with a p-value of 0.000, indicating that satisfied employees tend to demonstrate better work performance, both in terms of quality and quantity. The test results also showed that compensation has a direct effect on employee performance. The t-statistic of 2.088 and p-value of 0.037 confirmed that compensation not only impacts satisfaction but also directly drives performance improvement. Another important finding is the indirect effect of compensation on performance through job satisfaction as a mediating variable. With a t-statistic of 3.824 and a p-value of 0.000, this mediation relationship was declared significant. This means that job satisfaction is a key mechanism that bridges how compensation can optimally improve employee performance. This finding confirms the strategic role of job satisfaction in strengthening the relationship between compensation and performance.

The results of this study generally emphasize the importance of compensation and job satisfaction as two key variables contributing to improved employee performance. The first finding indicates that compensation has a positive and significant effect on job satisfaction, as evidenced by a p-value of 0.000 and a t-statistic of 12.776. This figure indicates a very strong and stable relationship. The consistency of these results with research by Iroth, Lengkong, and Dotulong (2018) and Pratama (2019) reinforces the understanding that fair and proportional compensation plays a crucial role in creating psychological well-being and a sense of appreciation for employees. In an organizational context, providing adequate compensation can reduce dissatisfaction, increase motivation, and create a work climate conducive to productivity.

Furthermore, the study also demonstrates that job satisfaction has a positive and significant effect on employee performance, as evidenced by a p-value of 0.000 and a t-statistic of 4.173. This finding supports the argument of Sultana et al. (2021), who emphasized that employees who feel satisfied with their jobs tend to demonstrate better performance, both in terms of work quality, punctuality, and commitment to their tasks. Job satisfaction, in this case, is not simply understood as a feeling of comfort or pleasure, but as a psychological state that makes employees more emotionally attached to the organization and thus willing to give their best effort.

This study also found that compensation has a direct influence on employee performance, although this relationship is not as strong as the influence of compensation on job satisfaction. With a p-value of 0.037 and a t-statistic of 2.088, this result remains significant and consistent with the findings of Yinawati (2016) and Dewi (2016), who explained that compensation can act as a primary motivating factor for employees to increase their contribution. This is because compensation is perceived as a form of appreciation and recognition for their efforts, thus encouraging individuals to maintain or improve their performance.

The most important finding of this study lies in the mediation pathway, namely the effect of compensation on performance through job satisfaction. With a p-value of 0.000 and a t-statistic of 3.824, it appears that job satisfaction plays a significant mediating role and strengthens the influence of compensation on performance. These findings align with research by Darma and Supriyanto (2017), which showed that adequate compensation not only has a direct impact on performance but also increases job satisfaction, which then reinforces this effect. In other words, compensation can create a positive cycle: when employees perceive their compensation as fair, job satisfaction increases, and this increased satisfaction leads to better performance. Overall, this research confirms that compensation strategies have long-term consequences for organizations. Compensation is not just a number on a paycheck, but a strategic element capable of shaping job satisfaction, increasing motivation, and driving optimal performance. Organizations seeking to improve performance need to focus not only on increasing compensation but also on ensuring that it is perceived as fair, transparent, and commensurate with employee contributions.

## CONCLUSION

This study concluded that compensation and job satisfaction play a crucial role in shaping employee performance. Compensation was shown to have a positive and significant effect on job satisfaction, indicating that fair rewards can enhance employee satisfaction. Job satisfaction also significantly impacts performance, so satisfied employees tend to perform better. Furthermore, compensation has a direct effect on performance, confirming that appropriate rewards can encourage increased contribution. The most important finding is that compensation has a stronger impact when it influences performance through job satisfaction, so satisfaction acts as a mediating mechanism that strengthens this relationship.

Based on the research findings, companies need to strengthen managerial practices that support employee performance and job satisfaction. First, companies need to ensure employees have adequate resources, direction, and support to complete their work on time, and reward those who consistently meet targets. Second, relationships between superiors and subordinates need to be built through more open and direct communication, so employees feel trusted and valued. Providing space for feedback is also crucial so companies can monitor the quality of work interactions. Third, the compensation system must be fair and transparent. Both financial and non-financial rewards need to be maintained and enhanced so that employees feel the value of their contributions is recognized. These efforts are expected to strengthen motivation, increase satisfaction, and encourage more optimal performance.

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