

**PERFORMANCE-BASED COMPENSATION EFFECT ON EMPLOYEE MOTIVATION,  
SATISFACTION OF EMPLOYEES, AND PERFORMANCE OF EMPLOYEES  
(STUDY ON PRIVATE UNIVERSITIES IN THE PROVINCE OF BALI): CONCEPTUAL  
FRAMEWORKS**

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**ABSTRACT**

*Facing global competition, where 2015 is the year of entry into force of the agreement ASEAN Economic Community (AEC) which is a free trade area for the countries in Southeast Asia. In facing the Asean Economic Community (AEC) employees, especially in the field of administration need to be prepared to compete with foreign labor (Crmsindonesia. Org, 2015). Therefore, the performance of employees, especially in the field of administration need to be improved. This research used a conceptual framework. Some employees have a high boarding costs expected by activities of the organization and can be run properly. human resources owned should actually have full support in terms of performance-based compensation and motivation to work in order to produce job satisfaction and higher employee performance.*

Keywords: performance, motivation, satisfaction, compensation.

**Introduction**

Education is one of the important aspects of life. Education is a conscious and deliberate effort to create an atmosphere of learning and the learning process so that learners can develop their potential, control, personality, intelligence, skills for themselves, the community, the nation and the State (Law Decree No. 20 of 2003 Article 1). Act No. 20 of 2003 Article 3 states that the national education serves to develop the ability and character development and civilization of the nation's dignity in the context of the intellectual life of the nation, is aimed at developing students' potentials in order to become a man of faith and fear of God Almighty, noble, healthy, knowledgeable, skilled, creative, independent, and become citizens of a democratic and accountable.

Among the institutions that play a role in the world is a college education. Law No. 22 of 1961, concerning Higher Education explained that the College is a scientific institution which has the task of organizing education and teaching in the upper secondary level education, and providing education teaching by the Indonesian national culture in a scientific way. In education and the development of knowledge, the college applies academic freedom and freedom of academic forum as well as the autonomy of science (Act No. 20 of 2003, Section 24). In other words, university as an organization has the authority to manage autonomously in order to carry out the activity of the organization. College as an organization to manage a goal to be achieved in the form of a vision and mission that has been set. Achieving goals can be done by the management of existing resources within the organization. One resource is a major driver of activity of college is human resources (HR). Management of human resources within the organization needed to direct all parties to achieve one goal. The main target of human resource management is to improve employee performance. In other words, human resource management is expected to produce employees who have high productivity. The organization's goals can be achieved when human resources performance can be improved effectively and efficiently. Performance of human resources (HR) in Indonesia is still low, especially welcome in the Asian region amounted to 21.9 US dollars and ranked 11 in 2013 (Apo, 2013).

Table1.  
Labor Productivity Several countries in Asia

No	Country	Productivity (Dollar AS)	Labor Productivity Index (%)
1.	Singapura	121.9	100
2.	Hongkong	99.8	81.9
3.	Taiwan	90.6	74.4
4.	Jepang	71.4	58.6
5.	Korea	61.5	50.5
6.	Iran	59.3	48.7
7.	Malaysia	50.2	41.2
8.	Mongol	25.2	20.7
9.	Thailand	24.5	20.1
10.	Srilangka	24.5	20.1
11.	<b>Indonesia</b>	<b>21.9</b>	<b>18.0</b>

Sources: Apo, 2013.

Table 1.1 Indonesia is known in labor productivity is still relatively low compared to neighboring countries and even lower than Thailand, and Sri Lanka. The percentage of Indonesian labor productivity index itself is only 18% when compared to other Asean countries such as Thailand, and Sri Lanka 20.1% (Apo, 2013). The functions of the human resources linked to the achievement of performance include the provision of appropriate compensation, the provision of support or motivation to work to employees, so as to produce the optimal performance of employees (Mathis and Jackson, 2011: 156). Compensation is part of the reward (reward) given by the company to their employees. The discussion of the compensation will not be separated from the consideration given company. Management remuneration adopt a "Total Rewards" which emphasizes the importance of the consideration of all aspects of remuneration in accordance with the overall design of integrated human resource (Armstrong, 2009: 737). Employee compensation is the payment process and reward the employees for the contribution they have given to an organization (Stewart and Brown, 2011: 412).

In practice, compensation is also associated with the performance of so-called performance-based compensation. Performance-based compensation recognized in the flow instrument Scientific management is compensated based on performance improvement through incentive bonuses (Armstrong, 2009: 319). The incentives are performance-based compensation system linking employee compensation to the achievement of employees working directly in a job (Mathis and Jackson, 2011: 43). Performance-based compensation consists of three types namely 1) individual incentives, additional salary based on the output produced, 2) bonuses, additional wages for top-level managers and, 3) the stock option that is an opportunity to own shares of the company (Luthans, 2011: 95). Empirical research on the relationship between performance-based compensation and employee performance has been carried out among others by Sarwar et al. (2014) Diaminni and Ricci (2010); Balzovich, (2013); Qureshi and Sajjad (2015); Xu et al. (2014); Ward (2015); Thaeif, (2015); Sarwar et.al. (2014); Ahmed et al. (2012). Diaminni and Ricci (2010) describes that the effect of performance-based compensation to the performance of the trade unions in Italy. Research results show the performance-based compensation has significant impact on the performance of the trade unions is measured through their labor productivity. Balzovich (2013), also describes the research results in which performance-based compensation can improve employee performance both individually and in groups. In terms of individual performance-based compensation can boost their performance. In terms of performance-based compensation group produces the urge to make a better working group with the size of the performance-based compensation is given.

Research and Sajjad Qureshi (2015), describes the compensation has an influence on employee performance improvement. Studies conducted on employees in Saudi Arabia to explain the positive relationship between the Compensation and Employee Performance. His research explains the better in awarding compensation then generates the employee's performance is also getting better. Xu et al. (2014), in his research found how the influence of compensation on workers' performance in terms of experience and expertise. The results showed the overall compensation of workers of all levels of experience and expertise have an impact on their performance. Research in Indonesia conducted Ward (2015), PT Garuda Milky Artha also give the same result that is compensation have an influence on employee performance. Research Ta'if (2015) said that the compensation PT PLN also showed a significant influence on employee performance.

Sarwar et al. (2011) conducted a case study in a college, Pakistan trying to make a research about factors that influence the performance of new employees. The result of this study is factors that low affect to performance of new employees, among others, the work itself, the lack of relationships and communications between employees and career expectations discrepancy. The third issue in accordance with the dimensions of job satisfaction so we can say good or poor job satisfaction affects employee performance.

The problems regarding compensation and employee performance occurs within an organization whether profit-oriented and non-profit. Colleges with various activities in human resource management need to consider aspects that affect employee performance. Includes that the performance-based compensation, employee motivation, and employee satisfaction. University is one of the colleges require human resource management is meticulous in carrying out its activities.

Organizations, especially those engaged in the services sector more use of human resources because it deals directly with customers compared to manufacturing companies use more engine power, and consumers do not make direct contact with the employees within the company. Performance-based compensation is set by law No. 14 of 2005 which states that the provision of benefits or additional set with the principle of respect on the basis of achievement. The implementation of performance-based compensation also become a requirement in the determination of accreditation a college (BAN-PT, 2011). In making the accreditation forms should include the human resources management system, especially in the delivery of performance-based compensation in the form of money or rewards for employees. Performance-based compensation needs to be more attention to be able to be adjusted by government regulations and the creation of a conducive working environment is needed in the organization. The provision of compensation in particular higher education is not enough to use compensation of a general nature that need to determine compensation more attractive to improve employee performance (Rasheed et al., 2014).

One human resources are no less important is the non-academic employees are employees of administration. Administrative employees organize the running operations of the University so that it can run as expected institution. Good management of human resources will provide benefits also for the improvement of the performance of the University itself. Lodging in Bali Island Private Universities have an important role in producing quality human resources. The island of Bali is one of the areas that became famous tourist destinations both domestically and overseas. Human resources play an important role in building relationships between foreign tourists against locals. In other word, Private University is expected to print the human resources that have some knowledge, skills, so skilled in their work. Moreover, the implementation of agreements already ASEAN

Economic Community (AEC) by 2015, which is a free trade area for the countries in Southeast Asia. One of the policies that are directly related to the preparation of human resources is the establishment of Indonesian Qualification Framework, better known by KKNI (Indonesian National Qualifications Framework). Associated with global dynamics requiring each country to open up to receive the flow of exchange of goods and services, the most realistic action is anticipated well. The key is its human resources are reliable, quality and competence relevant to the needs of the future. In such a context, the institution holds a very important role (Serambimata, 2014).

Human resource management at the Private University in Bali cannot be separated from the aspects that support the performance such as performance-based compensation, employee motivation, and employee satisfaction. When some of these aspects is met is expected to improve employee performance, especially in the field of administration. The models in this study wanted to know how the management of human resources at the Private University on the island of Bali and then linking them with the literature review and empirical basis of the findings earlier. This study develops a research model Jehanzeb et al. (2012), with variable compensation, motivation and job satisfaction. This study focuses on performance-based compensation, which is part of the variable compensation and the addition of employee performance as a research subject.

## Theoretical Framework

### Compensation

Compensation is part of the reward (reward) by companies to their employees. The discussion of the compensation will not be separated from the consideration given company. Management remuneration adopt a "Total Rewards" emphasizes the importance of the consideration of all aspects of remuneration in accordance with the overall design of an integrated Human Resources to obtain work motivation, retention and employee development (Armstrong, 2009: 737). Mathis and Jackson (2011: 362) basing remuneration is divided into two kinds of intrinsic and extrinsic. Intrinsic rewards reflected the psychological and social aspects such as achievement of goals or the completion of a task. While extrinsic rewards are visible rewards (tangible) and the form of monetary and non-monetary. Compensation includes from rewards that are extrinsic, so that the employer provides monetary rewards for work completed and the achievement of the performance generated.

According Nawawi (2011: 316) compensation is divided into three direct or indirect compensation and incentives / benefits are described as follows:

#### 1. Direct Compensation

Direct compensation is a reward / punishment is called the salary or wages are paid regularly by the time limit fixed. In line with the understanding that, wages or salaries interpreted also as a payment in the form of money in cash or in kind obtained by employees of the implementation work.

#### 2. Indirect Compensation

Indirect compensation is giving the profits / other benefits for workers beyond the salary or wages fixed, either in cash or goods. Whether it is a holiday allowance (THR), as well as other holiday allowance. In addition, in a wider variation can include health insurance, vacation, leave, and others.

#### 3. Incentives

Incentives are rewards / punishment given to motivate employees to work productivity is high, is not permanent or at any time. In other words, as part of the profit incentive, especially once given to the workers who work in good or outstanding. Compensation as a reward given organization is made up in various forms. Dessler (2013: 352) said that divides into two forms such as compensation for financial payments directly and indirectly. Direct financial payments include wages, salaries, incentives, commissions and bonuses and indirect financial payments such as insurance and recreation. Direct financial payments made in two ways salary increases based on time or with a performance-based, but for indirect financial payments based on performance.

Rival (2015: 544) says there are four real components of a compensation program, such as:

##### a. Salary

Salary is the remuneration in the form of money received by employees as a consequence of his position as an employee to contribute energy and mind in achieving the goals of the company, or it can also be regarded as fixed payments received by a person from membership in a company.

##### b. Wage

Wages are direct financial rewards paid to employees based on hours worked, the number of goods produced, or the number of services provided.

##### c. Incentive

Incentives are direct remuneration paid to employees for exceeding performance standards specified. Incentives are another form of wages directly out of wages and salaries which are fixed compensation, commonly called performance-based employee compensation (pay for performance plan).

##### d. Indirect compensation (Fringe Benefit)

Fringe Benefit is additional compensation granted under the company's policy as an effort to improve the welfare of employees such as: insurance, allowance, pension and others. There are two basic philosophies of the background for the provision of compensation to the employee that is the philosophy of Rights (entitlement) and a philosophy of performance (Mathis and Jackson, 2011: 363). Right Filosofi assumes that the

individuals who have worked over the years will gain increased rewards with little consideration of performance. Based on the increased cost of living as well as some other economic indicators. Philosophy of performance-based payments requires that the compensation changes are reflected by the difference in employee performance. Employees produce satisfactory performance will raise the level of their compensation in line with the level of marginal performance. Rewards management with regard to the formulation and implementation of strategies and policies to reward people fairly, equally and consistently in accordance with the value assigned to the organization (Armstrong, 2010: 736). Rewards management aims as follows (Armstrong, 2010: 736):

1. Rewards refers to what the organization values and are willing to pay.
2. The remuneration to employees the value created.
3. Rewards is the right thing to convey the right message about the importance of how to behave and the end result.
4. Developing a culture of performance.
5. Motivate employees and increase the commitment and engagement.
6. Helping people to draw and improve the quality of employees according to the needs of the organization.
7. Build a positive relationship with the employee and the psychological contract.
8. Stresses reward practices with business goals and employee value.
9. Providing equitable remuneration for employees feel they are treated fairly in accordance with which they provide to the organization.
10. Apply to equal the reward valued employees according to what they do to the organization, their relationship to work is measured by equivalent payments made by the work produced.
11. Functions consistent decisions that payment is not made in full and without distinguishing between one person and another person at a different time.
12. Carried out in a transparent manner that employees understand how rewards work and how it affects them.

#### 2.2.2. Performance Based Compensation

Compensation is performance-based salary increases given to individual employees on their individual performance (Desler, 2013: 396). Armstrong (2009: 816) defines that performance based compensation as a formal salary schemes which provide payments exceed the salary levels are generally associated with performance. Based on these definitions, the performance-based compensation refers to the increase in salaries or payments that exceed the salary levels in general with a clear scheme in the form of bonuses and incentives.

#### 2.2.3. Employee Motivation

The word motivation (motivation) said essentially the motive (motive), which means impulse, no rhyme or reason someone put through something (Nawawi, 2011: 351), Armstrong (2009: 314) reveals the motive is the reason for somebody to do something and motivation with regard to behavior and factor Factors that influence the actions of people in certain ways. Some experts explain the meaning of motivation. Motivation is a desire in employees to do the job because of a boost in themselves and outside themselves (Luthans, 2011: 156). Further Luthans explained that the motivation is the process starts with psychological deficiencies that drive behavior or lead to the achievement of the objectives so that motivation can be defined as a psychological process or someone in the achievement of a goal. Motivation is a desire in a person that causes the person to act Motivation is divided into two types: 1) Extrinsic motivation is motivation that seemed (tangible) and seen by others (Luthans, 2011: 160). 2) Motivation Intrinsic motivation is associated with the task or the job itself as a feeling of responsibility, achievement, completion of challenging tasks or competitively (Luthans, 2011: 161).

Taylor (1911), the theory states that instrumentalities people will work for the money (Armstrong, 2009: 322). This theory states that allows people will work harder than those who do not earn big salaries, and a permanent increase in the long-term period (ibid). This theory is still widely adopted and will succeed with some conditions but ruled out external controls such as the relationship between workers and a number of other needs.

According to Federick Herzberg, the factors that resulted in job satisfaction is separate and distinct from the factors that affect job satisfaction. The opposite of job satisfaction is not job dissatisfaction but are hygiene factors. Hygiene factors are external factors such as company policy and administration, supervision and employee benefits. If these factors are eliminated or filled may be making a disgruntled employee, but not necessarily motivating. Adlerfer (1972), divides the theory of human needs into three main categories such as (Armstrong, 2009: 324):

1. The need for existence of such a hunger and thirst - salaries, benefits and working conditions is one of these needs.
2. Relationship Needs known that people do not consist of a single unit but must be bound in a transaction with the human environment, acceptance, understanding, confirmation and elements that affect the relationship process.
3. The need for the growth of people find the opportunity to achieve what they want and be what they could be.

#### 2.2.4. Employee Satisfaction

The definition of employee satisfaction of some experts is as follows. Job satisfaction is feeling happy or positive emotions that arise from the assessment of an occupation or experience in working (Luthans, 2011: 141). Kreitner and Kinicki (2005: 270), defines that a job satisfaction as an emotional response to the various aspects of the job. While Robbins and Judge (2008: 107), defines employee satisfaction as a positive feeling about the work of someone who is the result of an evaluation of its characteristics. Mathis and Jackson (2011: 158), defines the job satisfaction of employees as positive emotions that arise from the evaluation of a work experience. Job satisfaction refers to the attitudes, and feelings about their work so that a positive attitude and comfortably through the work that led to the attachment will result in job satisfaction, while a negative attitude and uncomfortable to work indicates dissatisfaction. (Armstrong, 2009: 343). The level of job satisfaction is influenced by factors intrinsic and extrinsic motivation, quality supervision, social relations with the working group and the level of success and failure

of individuals in their work (Armstrong, 2009: 344). Stewart and Brown (2011: 258) explain that the work is a feeling of satisfaction and employee confidence about the quality of their work.

Kreitner and Kinicki (2005: 271), explaining there are five job satisfaction, among others:

1. Meeting the Needs. Explaining satisfaction is determined by characteristics of a job that allows an individual to meet their needs.
2. The lack skewer. Explaining job satisfaction is the result of unmet expectations. Expectations were met representing the difference between what is expected of a person or individual from a job, such as wages and promotion opportunities are better, and the fact that it receives.
3. Achieving Value. The idea underlying that satisfaction comes from the perception of a work allows for the fulfillment of the values important work of an individual.
4. Eq. In satisfaction is a function of how an individual is treated fairly in the workplace.
5. Components of Character / Genetics. Based on the belief that job satisfaction is partly a function of the nature of personal and genetic factors. In other word, Character / Genetic shows work with the characteristics of the work environment.

Luthans (2011: 145), said that there are five ways to increase job satisfaction, among others:

1. Make tasks more enjoyable.
2. Providing salaries, benefits and promotional opportunities fair.
3. Adjust the people with jobs in accordance with the interest and expertise.
4. Design of work to keep employees happy and satisfied.

In measuring job satisfaction, there are two methods used that assessment single common and value presentation end composed of a number of aspects of the work (Robbins and Judge, 2008: 108).

#### 2.2.5. Employee performance

The performance is to see the individual contributions given to organizations in empowering them (Stewart and Brown, 2011: 297). Performance is the result of execution of a job, both of physical / material and non-physical and non-physical / non-material Nawawi, 2011: 234). While Rival (2004: 309) describes the performance is a function of motivation and the ability to complete a task or a job in a person duly a degree of willingness and a certain level of ability. Based on these definitions, we conclude that the performance of employees is the individual contribution to the organization as a destination for human resource manage either physical or non-physical which have a degree of willingness and a certain level of ability.

An effective performance management system should do (Mathis and Jackson, 2011: 232):

1. Make a clear goal according to expectations of the organization.
2. Generate performance information to employees.
3. Identify areas of success and development needs.
4. Documenting employee performance records.

#### Methodology

The sampling technique in this research is to use probability sampling the chance or probability of any cases that have the same overall, and its population is unknown (Saunders, 2009: 213). Based on the source, the data in this study are primary data. Primary data is data obtained through direct observation and interviews with relevant parties (Cooper et al., 2007: 78), in the data collection study researchers used a questionnaire that will be given to the respondent. The questionnaire is a general term to include all data collection techniques which every individual in the given statements / questions with the same response to a set of statements / questions that have been determined in advance (Saunders, 2009: 360).

#### Data analysis technique

In quantitative research, data analysis techniques used to answer the problem formulation and testing hypotheses that have been formulated (Sugiyono, 2012: 426). In this study, data analysis techniques are divided into three descriptive statistical analyze, test research instruments and analysis of structural equation model or Structural Equation Modeling (SEM).

#### Analysis Descriptive Statistics

Descriptive statistical analysis is the transformation of raw data to explain the most basic characteristic of the beginning of such a tendency, distribution and variability (Zikmund et al., 2009: 486). Descriptive statistical analysis is used to provide an overview or empirical description of the data collected in the study (Ferdinand, 2011: 271). One method used is to describe the frequency distribution of respondents' answers on a variety of items variables studied.

#### Test Research Instruments

##### Validity test

Construct validity is used to determine whether a measure has a relationship with other measurements in predicting a theory on a construct (Cooper et al., 2007: 155). A measurement can be used to measure should have a relationship or correlation with other measurements that measure a same construct (convergent validity).

Based on the research model depicted in the diagram track the relationship between performance-based compensation, employee motivation, employee job satisfaction, and employee performance can be translated into a structural equation as follows:

$$\begin{aligned}
 Y1 &= \beta X + \epsilon \dots\dots\dots 1) \\
 Y2 &= \beta X + \beta Y1 + \epsilon \dots\dots\dots 2) \\
 Z &= \beta X + \beta Y1 + \beta Y2 + \epsilon \dots\dots\dots 3) \\
 X &= \text{Performance-Based Compensation (CBC)}
 \end{aligned}$$



Y1 = Employee Motivation (MK2)  
Y2 = Employee Satisfaction (K3)  
Z = Employee Performance (K2)  
 $\beta$  = Koefisien  
 $\varepsilon$  = Error

#### Selecting Input type and Estimation Model

The sample size has an important role in the interpretation of the results of SEM. Maximum likelihood model sensitivity to detect differences between the amount of the data. In this study sample size of 211 that meet these assumptions.

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