

Compensation, working environment, and employee performance: A study in one of the municipal water supply companies in West Java

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Research paper
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Abstract

Along with the increasingly advanced era, human resources are vital for small and large companies because their position drives all activities to achieve their goals. Similarly, municipal water supply companies also need employees to serve society well. Therefore, some roles, like compensation and working environment, are necessary to attain this situation. Based on this circumstance, this study examines their impact on employee performance. Moreover, to reach this purpose, this study distributed the questionnaire to the 113 municipal water supply employees in one of the West Java regencies as the samples, taken by a simple random sampling technique. Also, a survey is employed to collect data. The regression model and t-statistic are utilized to analyze the data and examine the proposed hypotheses. In conclusion, this study declares that their performance is positively affected by the work environment. Conversely, it is not influenced by compensation.

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Abstrak

Seiring dengan zaman yang semakin maju, sumber daya manusia merupakan sesuatu yang vital bagi perusahaan kecil maupun besar karena posisinya yang menggerakkan segala aktivitas untuk mencapai tujuannya. Demikian juga, perusahaan air minum juga membutuhkan karyawan untuk melayani masyarakat dengan baik. Oleh karena itu, beberapa peran, seperti kompensasi dan lingkungan kerja, diperlukan untuk mencapai situasi ini. Berdasarkan keadaan ini, penelitian ini mengkaji dampaknya terhadap kinerja karyawan. Selain itu, untuk mencapai tujuan tersebut, penelitian ini menyebarkan kuesioner kepada 113 pegawai PDAM di salah satu kabupaten di Jawa Barat sebagai sampel yang diambil dengan teknik simple random sampling. Juga, survei digunakan untuk mengumpulkan data. Model regresi dan t-statistik digunakan untuk menganalisis data dan menguji hipotesis yang diajukan. Kesimpulannya, penelitian ini menyatakan bahwa kinerja mereka dipengaruhi secara positif oleh lingkungan kerja. Namun, kinerja karyawan tersebut tidak dipengaruhi oleh kompensasi.

Kata kunci: kompensasi, kinerja karyawan, lingkungan kerja

Introduction

The efforts of the company to successfully achieve its goals depend on how it manages resources (Hasibuan, 2019). Besides money, machines, materials, methods, and money employees are other types (Abdullah, 2018). It happens because employees conduct all operating activities (Bataneh, 2019). Therefore, the recruitment and selection of candidates are essential to place the right man in the proper position (Hamza et al., 2021). By placing the employees in the appropriate position, the firm expects them to work well (Paais, 2020).

Job performance describes the working outcome of the employees completing their tasks based on their skills, experience, sincerity, and time (Hasibuan, 2019). Ideally, the employee should achieve this situation. However, this ideal situation does not happen in municipal water supply company XYZ which has seven branch offices and six-unit offices. Their average performance score decreased from 80.93 in 2020 to 80.73 in 2021. Finally, this score declined to 79.85 in 2022 (see Table 1).

Table 1.

Yearly average employee performance scores between 2020 and 2022

No.	Division	Year			Total Employees
		2020	2021	2022	
1	Human resources management	80.61	80.10	79.22	15
2	Finance	80.92	79.76	79.84	15
3	Research and development	79.96	79.88	80.95	12
4	Planning and supervising	81.63	81.51	79.66	15
5	Public relationship and secretary	82.29	81.46	79.14	12
6	Internal unit of supervision	80.92	80.81	79.96	15
7	General	81.11	80.89	79.89	15
8	Production	80.29	81.08	79.86	15
9	Maintenance and handling of disturbance and water loss	80.61	81.12	80.09	15
Average score		80.93	80.73	79.85	129

Source: Database of municipal water supply company XYZ

By denoting the interview with some employees, they said their leader is too rigid when reprimanding employees because they disobey the procedure. Besides, they declare the instructions from their leader are undetailed and unclear; therefore, their task is difficult to solve. Regarding compensation, they receive a low salary; accordingly, it cannot cover their daily need. Also, their bonus is not suitable for what they do. Related to their working environment, they admit the dim lamps in some spots, the broken floors in one of their room, neatly unplaced files, and the disorganized position of tables and chairs.

Based on this evidence, this study argues these phenomena as the determinants of decreasing employee performance. In other words, this study wants to prove the effect of compensation and working environment on the municipal water-supply company employee performance in one of the West Java regencies.

Theoretical framework and hypotheses

For employees, compensation is all forms the firm either directly pays, i.e., salaries, incentives, commissions, and bonuses, or indirectly pays, i.e., insurance and vacation (Dessler, 2020). Meanwhile, compensation for the firm reflects the effort to retain qualified employees (Reddy, 2021). Besides, it motivates the employees to perform well (Tumi et al., 2022). This explanation is confirmed by Arif et al. (2019) and Andi (2022) from Indonesia, demonstrating a positive relationship between the compensation and job performance of 47 employees in the Department of Highways and Construction of the Road and Bridge Technical Implementation Unit of the Provincial North Sumatra and 100 employees of Cahaya Pratama Mandiri in Cilegon, one-to-one. Equally, Aliku et al. (2020) prove the positive impact of salary and non-cash rewards as compensation on the attainment of 73 employees in Nigerian manufacturing companies. Based on this explanation, this study proposes the first hypothesis:

H₁: Compensation positively influences employee performance.

The working environment (WE) is all physical and physiological aspects of jobs and regulations (Mangkunegara, 2019). The more satisfied the employees are with this environment, the more performance they exhibit (Zhenjing et al., 2022). In their study, Saidi et al. (2019) divide WE into five sub-variables: (1) job safety and security (JSS), (2) physical working environment (PWE), (3) relationship with a co-worker (RCW), (4) supervisor support (SS), and (5) working hour (WH). Furthermore, they are related to job performance (JP). As a result, PWE, JSS, and WH are positively associated with JP. However, RCW is negatively related to JP. Furthermore, Sadewo et al. (2021) and Zhenjing et al. (2022) demonstrate a positive association between working WE after studying 152 employees in retail stores and 314 academic staff members, respectively. Meanwhile, Alegbeye et al. (2020) confirm this statement by showing a positive effect of occupational safety, health, and work loading on this performance based on the perception of employees working in libraries. However, the physical does not affect it. Based on this explanation, this study proposes the second hypothesis:

H₂: The working environment positively influences employee performance.

Methods

Research Variables

This research applies two types of variables: dependent and independent. Employee performance becomes determined and measured by the items in Diamantidis and Chatzoglou (2019) (see Table 2 for details). Furthermore, compensation and working environments become the first and

second determinants, and their indicators modify Nuraini et al. (2022) (see Table 2 for the details).

Table 2.
Indicators of employee performance, compensation, and working environment

Variable	Indicators	Source
Employee performance	I set high goals (EP1). I can attain the goals (EP2). I spend time effectively on work (EP3). I work on more tasks than the required ones (EP4).	Diamantidis and Chatzoglou (2019)
Compensation	The salary is suitable for my position in the company (COMP1). The salary is enough to meet my daily needs (COMP2). The incentives align with my expectations (COMP3). The incentives can upsurge my interest in completing my tasks (COMP4). The incentive is punctually received (COMP5). For me, this company equitably gives bonuses (COMP6). This company proportionally bonuses me for my overtime (COMP7). My bonus is punctually given (COMP8). I am protected by health insurance in this company (COMP9). The holiday bonus aligns with my expectations (COMP10). The value of accidental insurance aligns with the operational risk in my company (COMP11). The company pays attention to the facilities needed for work (COMP12). The facilities provided by the company align with my job (COMP13).	Nuraini et al. (2022)
Working environment	The air condition of the workroom comforts me when working (WE1). The equipment is sufficient for my work (WE2). The facilities in the company support me to work (WE3). I have a good relationship with my co-workers in the company (WE4). I am rewarded in the workplace because of my superior skill (WE5). The teamwork spirit exists in my workplace (WE6).	Modified from Nuraini et al. (2022)

Population and samples

When this study was conducted in March 2023, 149 municipal water supply company employees in one West Java regency existed. The Slovin formula in Firdaus (2021) calculates the total samples with a 10% margin of error. As a result, 113 employees (rounded) are obtained as the total, and simple random sampling is applied to take them.

This study employs the survey to collect data. Sugiyono (2019) explains that it distributes the questionnaire with a Likert scale based on five points from one to five to express disagreement to agreement.

Method to analyze data

This research employs the multiple regression model because it contains two independent variables: compensation (COM) and working environment (WE), and involves employee performance (EP) as the independent. The model is available in the second equation:

$$EP = \beta_0 + \beta_1 COM + \beta_2 WE + \varepsilon \quad (2)$$

Table 3.

The result of internal consistency

Variables	Symbol	Correlation between Item and Total Items	Probability (2-tailed)
Employee performance	EP ↔ EP1	0.704**	0.000
	EP ↔ EP2	0.765**	0.000
	EP ↔ EP3	0.739**	0.000
	EP ↔ EP4	0.820**	0.000
Compensation	COM ↔ COM1	0.725**	0.000
	COM ↔ COM2	0.746**	0.000
	COM ↔ COM3	0.761**	0.000
	COM ↔ COM4	0.723**	0.000
	COM ↔ COM5	0.607**	0.000
	COM ↔ COM6	0.693**	0.000
	COM ↔ COM7	0.826**	0.000
	COM ↔ COM8	0.690**	0.000
	COM ↔ COM9	0.805**	0.000
	COM ↔ COM10	0.680**	0.000
	COM ↔ COM11	0.879**	0.000
	COM ↔ COM12	0.981**	0.000
	COM ↔ COM13	0.752**	0.000
Working environment	WE ↔ WE1	0.842**	0.000
	WE ↔ WE2	0.708**	0.000
	WE ↔ WE3	0.552**	0.000
	WE ↔ WE4	0.758**	0.000
	WE ↔ WE5	0.558**	0.000
	WE ↔ WE6	0.643**	0.000

Source: Output of IBM SPSS 19

The application of the questionnaire needs verification internal consistency and reliability. Moreover, to examine it, this study employs the correlation between the item and total items, as Ghozali (2021) depicts. A valid answer occurs if the correlation is above 0.3 (Azwar, 2018) and the probability (2-tailed) is below the 5% significant level (Ghozali, 2021). Besides, this study uses the Cronbach Alpha for reliability testing, as Ghozali (2021) describes: If it is above 0.7, the group of accurate items is reliable.

Results and discussion

The result of the validity and reliability testing

Table 3 presents the correlation between the item and total items to detect the validity of the answer. The employee performance response: EP1, EP2, and EP3, is valid because their correlation to EP is above 0.3: 0.704, 0.765, 0.739, and 0.820. For compensation, their answer to items are accurate because their correlation to COM is above 0.3: 0.725 for COM1, 0.746 for COM2, 0.761 for COM3, 0.723 for COM4, 0.607 for COM5, 0.693 for COM6, 0.826 for COM7, 0.690 for COM8, 0.805 for COM9, 0.680 for COM10, 0.879 for COM11, 0.981 for COM12, and 0.752 for COM13. Similarly, their answer for the working environment item is precise, reflected by their correlation to WE above 0.3: 0.842, 0.708, 0.552, 0.758, 0.558, and 0.643, for WE1, WE2, WE3, WE4, WE5, and WE6, one-to-one.

Table 4 exhibits the Cronbach Alpha for accurate items to detect reliability. This related value is 0.887, 0.922, and 0.812 for employee performance, compensation, and working performance. Because these values are above 0.7, a consistent response exists.

Table 4.
The testing result of reliability based on Cronbach Alpha

Variable	Total Valid Items	The names of the items	Cronbach Alpha
Employee performance	4	EP1, EP2, EP3, EP4	0.887
Compensation	13	COMP1, COMP2, COMP3, COM4, COMP5, COMP6, COMP7, COMP8, COMP9, COMP10, COMP11, COMP12, COMP13	0.922
Working environment	6	WE1, WE2, WE3, WE4, WE5, WE6	0.712

Source: Output of IBM SPSS 19

The estimation result of the research model

Table 5 informs the estimation result of the regression model. In this table, the probability of t-statistics for COM is 0.510; therefore, the first hypothesis is rejected. It means compensation does not affect working performance. Unlike the first hypothesis, the second one is accepted because the probability of t-statistics for WE is 0.020, reinforced by a positive sign.

Table 5.
The estimation result of regression model: The impact of compensation and working environment on employee performance

Independent Variable	Unstandardized Coefficients		Standardized Coefficients	t	Probability
	B	Std. Error	Beta		
(Constant)	15.029	2.963	-	5.072	0.000
COM	-0.055	0.084	-0.069	-0.661	0.510
WE	0.336	0.141	0.272	2.374	0.020

Source: Output of IBM SPSS 19

Discussion

In this study, employee performance is not influenced by compensation. Interestingly, although showing an insignificant impact, the sign of the regression coefficient is negative, as Table 5 displays. Almost all are displeased with how the company rewards them, especially for the salary and bonus paid below their expectation, as described in phenomena. Therefore, this evidence supports Hameed et al. (2014) and BL (2021), after studying the perspective of 200 Pakistani employees of banks and the 352 employees of the regional offices of the Indonesian general directorate of taxes in South, West, and South-East Sulawesi, respectively.

Besides, this study demonstrates a positive effect of the working environment on employee performance. It means that the facilities in the workplace are enough, for example, air conditioning, computers, and equipment to repair the water pipe. Besides, cooperative co-workers and teamwork spirit become another support to work. Having this situation, they are motivated to work to enhance their performance. With this positive propensity, this study aligns with the ideal circumstance of Saidi et al. (2019), especially for teamwork spirit (WE6) and a good relationship with co-workers (WE4) to achieve better performance. Additionally, this study confirms Sadewo et al. (2021) and Zhenjing et al. (2022) without separating WE to be sub-variables, as Saidi et al. (2019) conducted. Both Sadewo et al. (2021) and Zhenjing et al. (2022) successfully prove a positive influence of WE on this performance.

Based on the phenomena in the introduction and the research results, we recommend that leaders explain their instructions to employees well; each task is accomplished well. Regarding compensation, leaders are expected to receive employee complaints and follow up on them in meetings with the rural government representative to solve them. These actions are vital to prevent employees with good abilities from resigning from this company.

Limitations

This study only utilizes the single firm as an object and the two determinants of employee performance utilized. Furthermore, to overcome the first, the next research is expected to use some municipal water supply companies from all West Java regencies. Because of the several companies, their analysis can utilize a hierarchical linear model to estimate the related coefficients. Secondly, other determinants of employee performance are discipline, training, motivation, work-life balance, and happiness.

Conclusion

Good municipal water supply employees are obligated to serve society members well; hence, their leader must focus on factors behind their job performance. Therefore, this study aims to investigate and analyze two related determinants, i.e., compensation and the working environment, based on the perspective of 113 employees in one of the associated companies in West Java regencies. According to our statistical investigation from the survey data-based response in March 2023, we infer that compensation does not affect employee performance. Still, the working environment does with a positive mark.

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Availability of data and materials

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Competing interests

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