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## The Effect of Financial Compensation and Non-Financial Compensation on Employee Performance with Motivation as an Intervening Variable in Yogyakarta Startup Companies

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### ABSTRACT

*The purpose of this study was to determine the effect of compensation on the performance of employees of startup companies in Yogyakarta with motivation as an intervening variable; to determine the effect of financial compensation on employee performance, to determine the effect of non-financial compensation on employee performance. This research was conducted by taking startup employees in Yogyakarta randomly as many as 73 employees. The calculation technique used in this study is the Multiple Linear Regression Analysis model and path analysis. Based on the analysis results indicate that there is a significant influence between financial compensation and non-financial compensation on employee performance; there is a significant influence between financial compensation and non-financial compensation on employee performance with notibvasi as an intervening variable.*

**Keywords:** Compensation; Employee Performance; Motivation, Startup

### INTRODUCTION

In the era of increasingly fierce business competition, the performance of employees is required to continue to increase. One of the steps to maintain or improve employee performance can be done by evaluating employee performance and making a series of improvements to always improve the quality of the employee so that the company grows and excels in the competition, or at least can survive. Work motivation is a factor that will support organizational effectiveness, so an adequate stimulus is needed to grow the work organization. Work atmosphere, equipment, environmental conditions, carrying capacity, compensation, rewards, attention, and communication are elements needed to encourage organizational success. Motivation refers to an activity for its own sake, because interest, pleasure, and satisfaction come from experience which is an important role of motivation in explaining human behavior (Lin, 2007). This study uses motivation, using 3 measurements (Feng et al., 2018), namely: Self-efficacy, Social Bonds, and Playfulness.

According to Handoko (2000:75), work motivation is a pleasant or unpleasant emotional state in which employees view their work. Work motivation reflects a person's feelings towards his work. Efforts to create high work motivation cannot be separated from the organization's ability to provide work motivation for its employees, whether it is in the form of additional facilities for employees or the provision of benefits or bonuses. In the context of the company, Handoko (2000:40) suggests that a way to improve employee performance, motivation and job satisfaction is to provide compensation. According to Handoko (2000:45) compensation is everything that can be received by employees as remuneration for the work of these employees to meet the needs of employees both in financial and non-financial firms as compensation for the company so that the company can operate properly and strive to achieve company goals. Compensation includes all types of payments, either directly or indirectly, in the form of material/money as well as awards given by the company to its workers/laborers (Riyadi, 2011:6).

Direct financial compensation (direct financial compensation) consists of payments (pays) obtained by a person in the form of salaries, wages, and bonuses. Indirect financial compensation, known as allowances, includes all financial rewards that are not covered by direct compensation. Non-financial compensation consists of job satisfaction obtained by a person from the work itself or from the psychological environment in which the person works. Types of non-financial compensation include satisfaction obtained from the performance of significant tasks related to work. The compensation given must be appropriate, fair, acceptable, satisfying, motivating, rewarding and by needs (Lewa & Subowo, 2005:66). Compensation will provide benefits to both parties, both the company and the employees. If compensation is given correctly, employees will be motivated and employee performance will also increase so that they will be more focused on achieving organizational goals. One example is in the Startup company environment in Yogyakarta where there are various types of startups in Yogyakarta competing with each other to have good performance so that consumers can feel satisfied. Startups must become facilitators, motivators, regulators and providers of quality and affordable health services for the community. For the sake of creating this, good performance is needed from human resources in the company. However, some recognitions of employees at startups, what the company provides cannot provide appropriate compensation both financially and non-financially so that employees are not motivated to work well. Contrary to the mission of startup work units to become facilitators, motivators, regulators and providers of quality and affordable health services for the community, employee welfare is often neglected by the agency. Therefore, from the existing mission with reality it is not appropriate where employees want compensation given by the agency to them according to what they have done so that they will be able to increase their work motivation and will improve their performance to be able to always provide the maximum possible performance for startups.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Compensation**

Compensation is the remuneration provided by the company to its employees, which can be valued in money and tends to be given on a permanent basis or in other words compensation can be interpreted as a remuneration provided by the company to employees both in financial and non-financial forms for the contribution of the employee's energy or thoughts. on the company. Compensation is a proper and fair remuneration for labor provided by a company or an organization in employing someone either as a permanent or non-permanent worker (Ruky, 2001:15). Dessler (2004:45) says that employee compensation means all forms of remuneration or rewards flowing to employees and arising from their employment. The aim of this wage and compensation administration is to provide compensation that is both competitive and fair. Emphasis on administrative activities is a compensation policy that regulates all directions of compensation payments within the organization (Mathis & Jackson, 2002: 76).

### **Motivation**

Motivation refers to the impulses and instincts that cause a person to act (Magen-nagar & Cohen, 2000). There are two types of motivation, namely intrinsic and extrinsic motivation (Magen-nagar & Cohen, 2000) (Ryan & Deci, 2000). Defines intrinsic motivation as interest in actual activities. Intrinsically motivated behavior is pleasure and interest, and has no external reward except for that enjoyment (Ryan & Deci, 2000). This behavior also involves a constant effort to face adversity and a willingness to acquire the necessary skills. In contrast, extrinsic motivation refers to participation in an activity based on external values and demands. Motivation has become a central and enduring issue in the field of psychology, because it is the core of biological, cognitive, and social regulation (Ryan & Deci, 2000). Behavior change is a long-term commitment and depends on a person's willingness and motivation to do so (Steffens, et al., 2017).

### **Performance**

Dessler (2004) argues, employee performance (job performance) is an employee's actual achievement compared to the expected performance of employees. Expected work performance is standardized achievement compiled as a reference so that employees can see the performance of employees according to their position compared to the standards made. In addition, it can also be seen the performance of the employee against other employees. Performance according to Faustino (2003) employee performance as expressions such as output, efficiency and effectiveness are often associated with productivity. According to Dessler (2004), what is meant by performance management is the process of consolidating goal setting, performance appraisal and development into a single common system, which aims to ensure employee performance supports the company's strategic objectives. Based on the definitions above, it can be concluded that performance is the result of work achieved by employees in their workplace in carrying out their duties and responsibilities.

### **Effect of Compensation (Financial and Non-Financial) on Motivation**

One of the factors that affect an employee's work motivation is compensation or compensation by the company, because compensation is a source of income for employees and the level of income is very influential in determining the standard of living of employees. And compensation is an addition that can fulfill part of the needs of employees, therefore employee work motivation is influenced by whether or not the minimum needs of the employee's life are fulfilled (Khan and Mufti, 2012:9). For companies, creating financial compensation and non-financial compensation that can be appreciated as a counter-achievement is a motivational strategy that is generally considered effective. Thus, it will be easier for companies to obtain employees who have productive work behavior and realize that this encourages the achievement of company goals and sustainability which will ultimately affect the provision of their needs so that it will encourage or motivate employees to work more actively and enthusiastically. to achieve optimal results. Providing appropriate compensation (financial compensation and non-financial compensation) will increase employee motivation

### **The Effect of Motivation on Performance**

Malthis (2007:98) states that the performance sought by the company from a person depends on the ability, motivation, and individual support received. According to Bachtiar (2012:6) there is a positive relationship between motivation and performance with achievement, meaning that employees who have high achievement motivation tend to have high performance, on the contrary those who have low performance are possible because their motivation is low. A person's motivation starts from the need, desire and urge to act to achieve the need or goal. Motivation is an important variable, where motivation needs to get great attention for organizations in improving the performance of their employees.

### Effect of Compensation (Financial and Non-Financial) on Performance

Motivation is a desire in a person that causes that person to take action. A person often takes action to achieve a goal. Motivation questions how to encourage subordinates' work passion, so that they are willing to work hard by giving all their abilities and skills to realize company goals (Murti and Srimulyani, 2013:5). If the compensation received by employees (financial and non-financial compensation) is greater, the employee's performance will be higher, on the other hand, if the compensation received by employees (financial and non-financial compensation) is lower, then employee performance is also low (Ghazanfar, et al, 2011: 125).

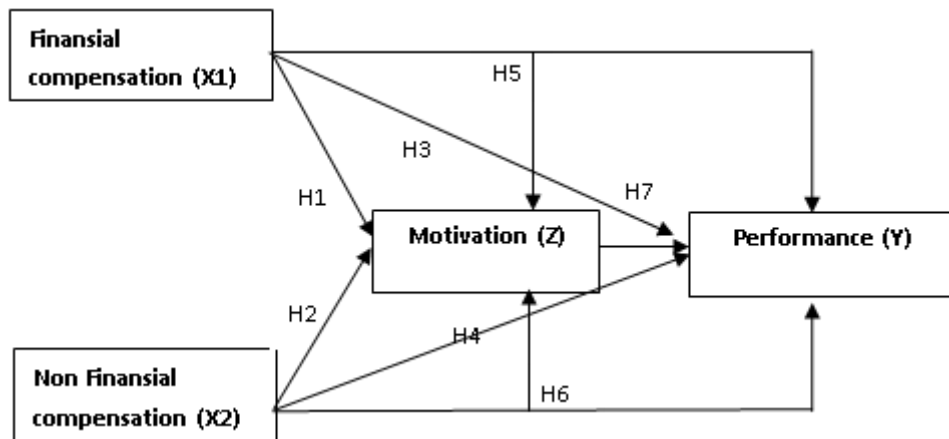


Figure 1. Research Framework

### RESEARCH METHODS

The population in this study were employees at startup companies in Yogyakarta, with the criteria as permanent employees and had worked for at least 1 year. The data used were primary data from questionnaires distributed to research respondents, namely 71 startup employees in Yogyakarta. The researcher distributed 100 questionnaires to startup employees in Yogyakarta, but the questionnaire returned only 71 questionnaires, therefore, the researcher took a sample of 71 permanent employees at startup companies in Yogyakarta.

Berdasarkan kriteria tersebut di atas, 50 perusahaan pertambangan tercatat di Bursa Efek Indonesia untuk periode 2019-2021. Sebanyak 44 perusahaan yang memenuhi kriteria penelitian layak untuk dijadikan sampel. Total untuk tiga periode adalah 132 sampel.

#### Compensation (X)

Compensation is everything that is given by the company to employees to meet the needs of employees both in financial and non-financial forms as compensation for the company so that the company can operate properly and strive to achieve company goals. According to Noe (1993: 211) compensation can be divided into two types, namely financial and non-financial compensation. Financial compensation consists of direct financial compensation and indirect financial compensation.

#### Motivation (Z)

The need to achieve success (need for achievement) is the need for achievement and is an impetus to excel, to excel in relation to a set of standards, to struggle for success (Amstrong, 1994:55). Employees strive to achieve work performance by seeking knowledge and trying various alternatives because each task is a personal responsibility that must be done to get success. The task is also a challenge to know one's own ability in planning and how much effort to achieve the best results compared to the achievements of other employees. Job satisfaction is an optimistic goal in an effort to achieve

achievement from each completed task. Employees with a high need for achievement are passionate about competing and challenging jobs, seek promotion opportunities, and have a strong desire for feedback on performance. Employees need to get feedback from the environment as a form of recognition of their achievements. The need for superior achievement is the impetus to achieve success on more challenging tasks realistically according to long-term goals and planning.

**Performance (Y)**

Dessler (2006) argues, employee performance (job performance) is the employee's actual achievement compared to the expected performance of the employee. Expected work performance is standardized achievement compiled as a reference so that employees can see the performance of employees according to their position compared to the standards made. In addition, it can also be seen the performance of the employee against other employees. Performance Indicators are divided into six (6) indicator aspects, namely: Quality of work, Productivity, Knowledge of work, Trust, Availability, Freedom

**Multiple Regression Analysis**

Multiple linear regression analysis was used to determine the effect of compensation (financial compensation and non-financial components) on the motivation and performance of permanent employees at startup companies in Yogyakarta. The form of the multiple regression equation is to determine the effect of compensation (financial compensation and non-financial components) on employee motivation and performance at startup companies in Yogyakarta.

**Path Analysis**

Path analysis is used to analyze the relationship between variables with the aim of knowing the direct or indirect effect, a set of independent variables (exogenous) on the dependent variable (endogenous). Path analysis model is a causal relationship pattern or a set of hypothesized causal asymmetric among the variables Sugiyono (2010:112). In the causal model, exogenous and endogenous variables are distinguished. Exogenous variables are variables whose diversity is not influenced by causes in the system (model), this variable is defined as a starter variable that gives effect to other variables. This variable does not take into account the remaining amount (disturbance) even though it actually has a residual or error. While the endogenous variables and other endogenous variables (Sugiyono, 2010:112). Path analysis used in this study.

**RESULT AND DISCUSSION**

The provision of compensation in a company must be arranged in such a way that it is a good system. The company provides compensation in the hope of reciprocity from the employee to work with good performance. Compensation that is applied properly will provide work motivation for employees. By using the Slovin approach formula, the sample calculation obtained results of 70.6 people, so that the results are accurate, 71 employees at startup companies will be taken as respondents.

**Validity Test**

The results of the validity test are based on calculations using SPSS for Windows 20.0.

**Table 1. Validity Test**

| Variable                                 | Indicator         | r <sub>hitung</sub> | r <sub>tabel</sub> | Conclusion |
|--|-------------------|---------------------|--------------------|------------|
| Financial Compensation (X <sub>1</sub> ) | X <sub>1.1</sub>  | 0.672               | 0.2368             | Valid      |
|  | X <sub>1.2</sub>  | 0.570               | 0.2368             | Valid      |
|  | X <sub>1.3</sub>  | 0.506               | 0.2368             | Valid      |
|  | X <sub>1.4</sub>  | 0.563               | 0.2368             | Valid      |
|  | X <sub>1.5</sub>  | 0.442               | 0.2368             | Valid      |
|  | X <sub>1.6</sub>  | 0.607               | 0.2368             | Valid      |
|  | X <sub>1.7</sub>  | 0.689               | 0.2368             | Valid      |
|  | X <sub>1.8</sub>  | 0.446               | 0.2368             | Valid      |
|  | X <sub>1.9</sub>  | 0.402               | 0.2368             | Valid      |
|  | X <sub>1.10</sub> | 0.575               | 0.2368             | Valid      |

|   |                  |       |        |       |
|---|------------------|-------|--------|-------|
| Non-Financial<br>Compensation (X <sub>2</sub> ) | X <sub>2.1</sub> | 0.661 | 0.2368 | Valid |
|   | X <sub>2.2</sub> | 0.650 | 0.2368 | Valid |
|   | X <sub>2.3</sub> | 0.666 | 0.2368 | Valid |
|   | X <sub>2.4</sub> | 0.773 | 0.2368 | Valid |
|   | X <sub>2.5</sub> | 0.676 | 0.2368 | Valid |
|   | X <sub>2.6</sub> | 0.663 | 0.2368 | Valid |
|   | X <sub>2.7</sub> | 0.617 | 0.2368 | Valid |
|   | X <sub>2.8</sub> | 0.569 | 0.2368 | Valid |
| Motivation (Z)                                  | Z <sub>1</sub>   | 0.758 | 0.2368 | Valid |
|   | Z <sub>2</sub>   | 0.717 | 0.2368 | Valid |
|   | Z <sub>3</sub>   | 0.640 | 0.2368 | Valid |
|   | Z <sub>4</sub>   | 0.686 | 0.2368 | Valid |
|   | Z <sub>5</sub>   | 0.590 | 0.2368 | Valid |
|   | Z <sub>6</sub>   | 0.477 | 0.2368 | Valid |
|   | Z <sub>7</sub>   | 0.755 | 0.2368 | Valid |
|   | Z <sub>8</sub>   | 0.544 | 0.2368 | Valid |
|   | Z <sub>9</sub>   | 0.414 | 0.2368 | Valid |
| Performance (Y)                                 | Y <sub>1</sub>   | 0.422 | 0.2368 | Valid |
|   | Y <sub>2</sub>   | 0.503 | 0.2368 | Valid |
|   | Y <sub>3</sub>   | 0.471 | 0.2368 | Valid |
|   | Y <sub>4</sub>   | 0.591 | 0.2368 | Valid |
|   | Y <sub>5</sub>   | 0.474 | 0.2368 | Valid |
|   | Y <sub>6</sub>   | 0.423 | 0.2368 | Valid |
|   | Y <sub>7</sub>   | 0.478 | 0.2368 | Valid |
|   | Y <sub>8</sub>   | 0.538 | 0.2368 | Valid |
|   | Y <sub>9</sub>   | 0.506 | 0.2368 | Valid |
|   | Y <sub>10</sub>  | 0.428 | 0.2368 | Valid |
|   | Y <sub>11</sub>  | 0.485 | 0.2368 | Valid |
|   | Y <sub>12</sub>  | 0.261 | 0.2368 | Valid |
|   | Y <sub>13</sub>  | 0.337 | 0.2368 | Valid |
|   | Y <sub>14</sub>  | 0.302 | 0.2368 | Valid |
|   | Y <sub>15</sub>  | 0.477 | 0.2368 | Valid |

Source: Data processed (2022)

### Reliability Test

Reliability means if a person's answer to a question is consistent or stable over time. The higher the reliability coefficient, the more reliable the answers obtained from the respondents. Reliability testing in this study was carried out by calculating the value of the Cronbach's Alpha instrument from each of the variables tested. If the Cronbach's Coefficient Alpha value is greater than 0.6, then the answers from the respondents to the questionnaire as a measuring tool are considered reliable. If the Cronbach's Coefficient Alpha value is less than 0.6, then the answers from the respondents to the questionnaire as a measuring tool are considered unreliable.

**Table 2. Reliability Test**

| Variable                                     | Alpha Cronbach | Exp      |
|--|----------------|----------|
| Financial Compensation (X <sub>1</sub> )     | 0.739          | Reliable |
| Non-Financial Compensation (X <sub>2</sub> ) | 0.813          | Reliable |
| Motivation (Z)                               | 0.796          | Reliable |
| Performance (Y)                              | 0.749          | Reliable |

Source: Data processed (2022)

### Path Analysis

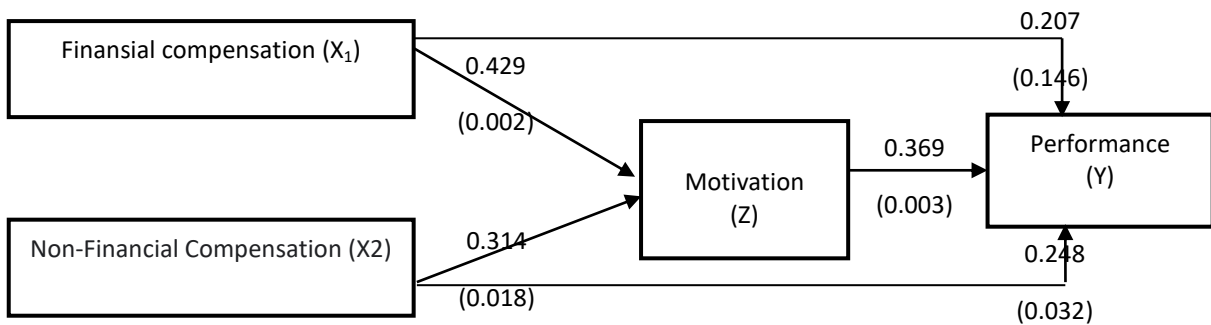


Figure 2. Path Analysis X<sub>1</sub>, X<sub>2</sub>, Z, and Y

This study shows that non-financial compensation has the lowest assessment score among financial compensation, so this non-financial compensation needs to get more attention, especially startup company leaders and employees together to decide how to best determine appropriate, reasonable non-financial compensation. and fair. Based on the results of the direct and indirect effects of financial compensation (X<sub>1</sub>), non-financial compensation (X<sub>2</sub>) on performance (Y) through motivation (Z), the results show that the direct effect is greater than the indirect effect. And the magnitude of the effect of financial compensation, non-financial compensation and motivation on performance is 25.5%.

There are two things that companies need to keep in mind when providing compensation. First, the compensation provided by the company must be perceived as fair by employees and second, the amount of compensation is not much different from what is expected by employees. If these two things can be met, the employee will feel satisfied. Satisfaction will motivate employees to improve their performance, so that the company's goals and employee needs will be achieved together. The results of this study are supported by the results of previous research conducted by Riyadi (2011), the results of research by Murty and Hudiwinarsih (2012), with the conclusion that the financial compensation variable does not have a significant effect on employee performance.

### CONCLUSION

For startup companies, to increase employee motivation and performance, it is necessary to pay attention to and increase compensation aspects. For example, there are awards for employees who have higher work performance for the standard salary given to jobs that may be the same. Non-financial compensation has the lowest assessment score compared to financial compensation, so the determination of non-financial compensation needs to get more attention, especially from the leadership of startup companies. So that fair, fair and proper non-financial compensation should be able to balance what an employee has given to the company. Not only that, the existing non-financial compensation program is also expected to be in line with what is desired by the employees concerned, because then the employees concerned will feel they have a close working relationship with the company where they work.

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