

The Impact of Organizational Communication and Compensation on Employee Performance, with Employee Engagement as a Mediating Variable (Evidence from an Indonesian Stated-Owned Company)

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Abstract

This study aims to analyze the effect of compensation and organizational communication on employee engagement and then to analyze the effect of employee engagement on employee performance. A total of 128 PT Pegadaian employees were involved as research respondents. This quantitative research uses a survey method, and data collection uses a questionnaire and a Likert scale. Data were analyzed using structural equation modeling (SEM) and the AMOS program. The advantage of the SEM approach with AMOS is that the analysis can be carried out simultaneously. The results showed that of the 5 research hypotheses, research data supported three: 1) Compensation had a positive and significant effect on employee engagement, 2) Compensation had a positive and significant effect on employee performance, and 3) Employee engagement had a positive and significant effect on employee performance. This means that research data support the role of employee engagement as a mediating variable.

Keywords: *Compensation, Organizational Communication, Engagement, Sobel Test.*

INTRODUCTION

Employee engagement is the degree of emotional investment and devotion that workers have for their work and company. Engaged employees are highly driven, enthusiastic about what they do, and eager to go above and beyond to support the organization's success. Employee engagement has become a hot topic in human resources management and development in the past few years. Employee involvement was seen by many as having the potential to improve organizational performance. It is thought that a highly engaged workforce can provide more thoughtful performance, increasing its ability to contribute to the company's success. (Macey et al., 2009). Additionally, employee engagement plays a significant role in influencing how healthy businesses operate and how well employees perform, feel, and have reasons to stick with their companies. (Bedarkar & Pandita, 2014).

Results of the study by Pacquing (2023), with participants gathered from the University of Santo Tomas College of Science Ethics, revealed that person and organization fit and organizational commitment are antecedents and outcomes of employee engagement, respectively. Findings further revealed that employee engagement mediates the connection between person and organizational fit and commitment. He considered the following research about job position, rank, gender, and generational differences as variables affecting engagement behaviors. Moreover, future research may consider comparing engagement behavior in different business fields, such as health care, academia, and government service.

Human resource management refers to all policies that aim to direct the behavior of human resources to achieve organizational goals. The current performance of PT Pegadaian (Persero) Tangerang Area indicates that it still needs attention, as shown in Table 1.1. In 2017, as many as 25.7% of employees were underperforming. In 2018, it increased to 29.4%. The condition of employee work discipline also shows that the average absentee rate during 2018 was 6.7%, and the tardiness rate was 3.4%. Attendance in a company is a problem because absenteeism means losses due to obstruction of work completion and decreased performance, which indicates weak employee motivation.

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Mathis and Jackson (2011) and Armstrong and Taylor (2014) argue that factors related to company performance can come from the company's internal and external environment. Management support factors include culture, training, organizational climate, and environmental dynamics. Factors that affect performance are related to work, such as communication, autonomy, and the environment, and employee-related factors, such as intrinsic motivation, proactivity, adaptability, skill flexibility, commitment, and skill level.

Based on this, a pre-survey was carried out, which showed that 60% said there was a problem with not feeling enthusiastic at work, and 40% said that there was no problem. Regarding employee communication, 70% stated that communication between employees was not going well, and 30% said there was no problem. Likewise, for compensation, 75% stated that the compensation obtained was not commensurate with their work effort, and 25% said there was no problem. Based on the problem of compensation, organizational communication, and employee engagement, it can be conclude.

The existing research gap related to research on employee engagement is that there are two opinions from Armstrong & Taylor (2014) stating that the driving factors for engagement can come from the work itself, leadership, work environment, opportunities to grow, and opportunities to contribute. Storey et al. (2009) stated that the way to achieve employee engagement is through a clear vision, fair compensation, communication, and flexible organizational experience. From these two opinions, engagement development is primarily through the line management function (Armstrong & Taylor, 2014). However, Storey et al. (2009) focus more on the practice and function of human resource management. This will be further explained in the results of previous research in Chapter 3. This study will focus more on the practice and function of human resource management as a factor for employee engagement.

Based on the description above, the researcher will conduct a study entitled Employee Engagement as a Mediator for the Influence of Non-Financial Compensation and Organizational Communication on Employee Performance. It is hoped that the research results can help PT Pegadaian (Persero) Tangerang Area improve the performance of its employees so that the company can achieve its goals as the company's vision and mission.

The positive and significant effect of engagement on performance has been proven by researchers, namely Motyka (2018), Dajani (2015), and Siswono (2016), showing that employee engagement has a positive and significant effect on employee performance. Ramadhan and Sembiring's research (2015) shows that employee engagement has a significant effect on performance, research by Handoyo and Setiawan (2017), Yusuf et al. (2019), Markos & Sridevi (2010) stated that employee engagement is a stronger predictor of organizational and employee performance. This is also supported by Muliawan et al. (2017) and Azizah and Gustomo (2015). Only Kusumawati's research (2017) shows that employee engagement does not affect employee performance variables.

Armstrong & Taylor (2014) states that there are two key elements to developing employee engagement, namely the rational aspect and the emotional aspect. Armstrong & Taylor (2014) stated that the driving factors for engagement can come from the work itself, leadership, work environment, opportunities for growth, and opportunities to contribute. Storey et al. (2009) states how to achieve employee engagement through a clear vision, fair compensation, communication, and flexible organizational experience.

Riyanto & Setyani (2020) show that the work environment, work-life balance, and employer branding have a positive and significant effect on employee engagement. Rizki et al. (2019) stated that management and work culture affect employee engagement. The research of Riyanto et al. (2017), Herminingsih (2015) and Herminingsih (2020) found that transformational leadership and job satisfaction affect employee engagement which in turn affects organizational commitment. Jamal (2011), Othman et al. (2019), Mansoor & Hassan (2016) and Altehrebah et al. (2019) that employee communication, appreciation and recognition and employee development have a significant positive relationship with employee engagement, as well as Nagesh et al. (2019)

Organizational communication has an influence on employee engagement and performance which has been proven by previous studies. The results of research by Hayase (2009), Mbhele (2016) carried out in Africa, as well as Balakrishnan & Masthan (2013) state that there is a relationship between internal communication and

employee engagement. Veshne (2017) states that organizations need to focus on improving supervisor communication which will improve employee welfare and employee engagement.

The results of research by Femi (2014), Chege & Ombui (2014) and Aka & Juliet (2018) that the communication process is a significant predictor of employee performance. The results of the analysis of Onifade & Okafor (2018) show that there is a significant relationship between effective communication and employee performance. Research results by Hee et al. (2019) show that downward communication (DC) and horizontal communication (HC) have a significant positive effect on employee performance.

The effect of compensation on employee engagement was stated by Taufek et al. (2016), Waqas & Saleem (2014), and Alvi et al. (2014) also show that employee compensation can change the level of employee work engagement, as well as Hanif & Inayat (2017) which states that compensation is a determinant of employee engagement. The findings of Gill et al. (2014) states a strong relationship between compensation and the dimensions of employee engagement.

Compensation is a human resource management practice that has a significant influence on employee performance and has received support from previous research, for example Njoroge & Kwasira (2015), Nagaraju & Pooja (2017), Jean et al. (2017), as well as Akter & Husain (2016) which show that there is a strong and positive relationship between compensation and work performance. Etebu (2016) shows that financial compensation has a significant effect on performance. This is supported by Omuya (2018) and Madiyanti et al. (2018).

Method

Research Design

This research uses survey method, and is an explanatory research which aims to explain the influence between variables through hypothesis testing. The hypothesis is based on theory and previous empirical research.

Research Framework and Hypotheses

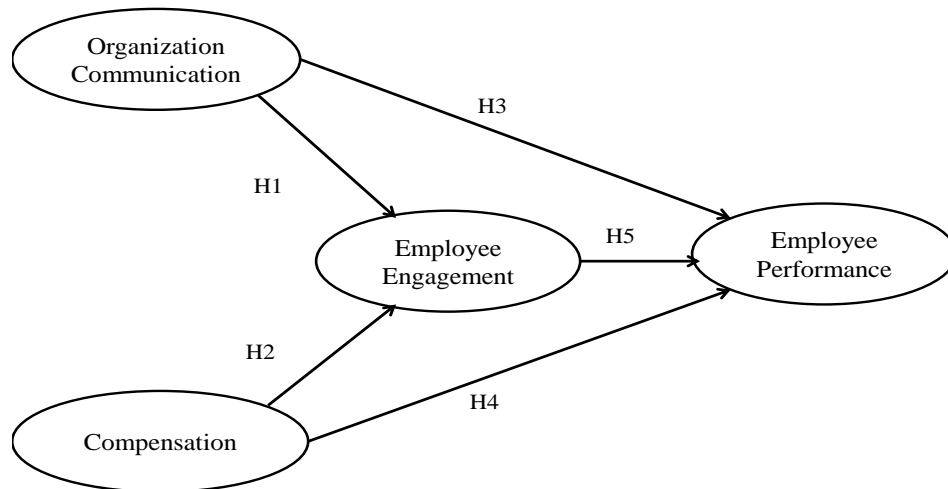


Figure 1. Research Framework

The research hypothesis are :

H1 Organizational communication has a significant effect on employee engagement.

H2 Compensation has a significant effect on employee engagement.

H3 Organizational communication has a significant effect on employee performance.

H4 Compensation has a significant effect on employee performance.

H5 Employee engagement has a significant effect on employee performance.

Population, Sample and Sampling Technique

The study population was all employees who worked at PT Pegadain Area Tangerang, which is a government-owned company. The number of samples in data processing using AMOS is a minimum of between 3 and 5 times the number of research variables. For this reason, the number of research samples was determined to be 128 people.

Data Collection Procedure

Primary data were collected using a questionnaire, which was filled in self-report by the respondent. The questionnaire submission technique is delivered directly to the respondents, where this technique is better than sending the questionnaire by post because it can minimize the difference in interpretation between the respondent and the researcher. All variables are arranged in a questionnaire, which consists of dimensions which are then described in indicators. Filling out the questionnaire is carried out by self-rating, where respondents fill out the questionnaire based on their own perception of the statements in the research questionnaire. The measurement scale uses a Likert scale of 1 to 5.

Data Analysis

The data is used to estimate the model using structural equations (SEM) and the AMOS (Analysis of Moment Structure) version 15 program package. SEM is used because it allows researchers to test the relationship between complex variables to obtain an overall picture of the overall model. In addition, according to Bohlen in Ghozali and Fuad (2005: 3) SEM can also test together: 1) The structural model of the relationship between the independent construct and the dependent construct. 2) The relationship related to the measurement model, which can be seen from the loading value between the indicator and the construct (latent variable). The mediation variable test was lexicalized by the Shobel test.

RESULT

Descriptive of Variables

Table 1. Descriptive of Variable					
	N	Minimum	Maximum	Mean	Std. Deviation
Organizational Communication					
Bottom Up	128	1.80	4.80	3.8875	0.57164
Top Down	128	1.75	5.00	4.0078	0.66621
Horizontal	128	1.67	5.00	3.9005	0.69823
Compensation					
Wages	128	1.67	5.00	3.9118	0.67595
Allowance	128	1.67	5.00	3.8937	0.68098
Incentive	128	1.50	5.00	3.8750	0.77103
Nonfinancial	128	1.33	5.00	3.8623	0.67000
Employee Engagement					
Vigor	128	1.67	5.00	3.9192	0.70861
Dedication	128	2.00	5.00	3.9059	0.70285
Absorbtion	128	2.00	5.00	3.9012	0.66501
Employee Performance					
Quality	128	1.67	5.00	3.8775	0.65178
Quantity	128	2.20	4.80	3.8828	0.54615
On Time	128	2.00	5.00	3.9426	0.66161
Efectivity	128	2.00	5.00	3.8623	0.66117
Commitment	128	1.67	5.00	3.8799	0.68083

Source: Research Data Processed (2023)

Organizational Communication (X₁)

Organizational communication in this research is reflected in 3 dimensions which include top-down communication, bottom-up communication and horizontal communication. Table 1 is a descriptive statistic to present the lowest (minimum), highest (maximum), average (mean) value and standard deviation of answers to organizational communication dimensions (X₁). Based on Table 1, the minimum, maximum, mean and standard deviation values for each dimension in the organizational communication variable. The average score for all dimensions of downward communication and horizontal communication, the respondents' answers are in the quite good range because the average score is above 3.00 but still needs to be improved because the value is less than 4.00. The downward communication dimension has a score above 4.00 so it can be declared good.

Compensation (X₂)

Compensation is reflected in 4 dimensions which include salary, benefits, incentives and non-financial compensation. Table 1 is descriptive statistics to present the lowest value (minimum), highest value (maximum), average (mean) and standard deviation of answers to the dimensions of compensation (X₁). Based on Table 1, you can see the minimum, maximum, mean and standard deviation values for each dimension in the compensation variable. The average score for all these dimensions, the respondents' answers are in the quite good range because the average score is above 3.00 but still needs to be improved because the value is less than 4.00.

Employee Engagement (Y₁)

Employee Engagement in this research is reflected in 3 dimensions which include vigor, dedication, and absorption. Table 1 presents the lowest (minimum), highest (maximum), average (mean) value and standard deviation of answers to employee engagement for each dimension. Based on Table 1, it can be seen that the objects studied (N) were 128 people. The average value of all these dimensions, the respondents' answers are in the quite good range because they have an average score value above 3.00 but still need to be improved because the value is less than 4.00.

Employee Performance (Y₂)

Employee performance in this research is reflected in 5 dimensions which include work quality, work quantity, timeliness, work effectiveness and work commitment. Table 1 is a descriptive statistic to present the lowest (minimum), highest (maximum), average (mean) value and standard deviation of answers to employee performance indicators (Y₂). Based on Table 1, the minimum, maximum, mean and standard deviation values for each dimension in the employee performance variable can be seen. The average score for all these dimensions, the respondents' answers are in the quite good range because the average score is above 3.00 but still needs to be improved because the value is less than 4.00.

Instrument Validity and Reliability

Confirmatory analysis is an evaluation of the validity and reliability of the measurement model of research variables. Evaluation of validity and reliability using loading factor criteria greater than 0.5. Reliability criterias are carried out by manual calculation with a minimum criterion of 0.6. The results of the confirmatory analysis presented in Table 2 that all measurements are valid and reliable.

The strongest dimension in measuring employee engagement is absorption considering that this dimension has the highest loading factor value. The dimension of the organizational communication variable that has the highest loading factor value is upward communication, meaning it is the most important dimension in measuring organizational communication. The non-financial compensation dimension is the most important dimension in compensation measurement, considering that this dimension has the highest loading factor value among the compensation measurement dimensions. The work quantity dimension is the most important measurement for employee performance, considering that the work quantity dimension has the highest loading factor value compared to other dimensions.

		Loading Factor	Decision	Extract Variance	Decision
Employee Engagement					
Vigor		0.662	valid		
Dedication		0.682	valid	0.746	reliable
Absorbition		0.762	valid		
Organizational Communication					
Bottom Up		0.739	valid		
Top Down		0.683	valid	0.867	reliable
Horizontal		0.693	valid		
Compensation					
Wages		0.562	valid		
Allowance		0.607	valid	0.855	reliable
Incentive		0.554	valid		
Nonfinancial		0.747	valid		
Employee Performance					
Quality		0.658	valid		
Quantity		0.758	valid		
On Time		0.681	valid	0.798	reliable
Efectivity		0.684	valid		
Commitment		0.600	valid		

Source: Research Data Processed (2023)

Goodness-Of-Fit

Model fit evaluation is needed to evaluate whether the research model is good enough to be suitable for use in research analysis. Evaluation of the suitability of the research model was carried out using 6 criteria, each with a cut-off value as presented in Table 3. (Ferdinant, 2014). The values obtained from the results of data processing with AMOS are then compared with the cut-off values to obtain conclusions. Based on the evaluation, it shows that of the 6 criteria, 4 of the criteria show that the model is good while 2 of the criteria are marginal. Based on the results of this evaluation, the model was declared suitable for further analysis.

Tabel 3. Goodness-of-fit Index

<i>Goodness-of-fit Indeks</i>	<i>Cut-of Value</i>	<i>Value</i>	<i>Evaluation</i>
CMIN/DF	< = 2,00	1,471	Baik
GFI	>=0,90	0,887	Marjinal
AGFI	>=0,90	0,838	Marjinal
CFI	>=0,90	0,948	Baik
PCFI	>0,50	0,758	Baik
RMSEA	0,03 - 0,08	0,061	Baik

Source: Resource Data Processed (2023)

Hypothesis Test

Hypothesis testing is carried out using a P value criterion, and if the P value is smaller than 0.05 then the research hypothesis is accepted and if it is greater than 0.05 then the hypothesis is rejected. The results of hypothesis testing as in Table 4 show that of the five hypotheses only two were accepted. Two research hypotheses were accepted, namely: 1) compensation has a significant effect on employee engagement, and 2) compensation has a significant effect on employee performance. This means that compensation is an important factor considering that apart from being able to increase employee engagement, it also increases employee performance.

Table 4. Result of Hypothesis Test

			Estimate	S.E.	C.R.	P	Decision
Employee Engagement	<---	Organizational Communication	-0,102	0,288	-0,354	0,723	Hypothesis Rejected
Employee Engagement	<---	Compensation	1,176	0,381	3,088	0,002	Hypothesis Accepted

			Estimate	S.E.	C.R.	P	Decision
Employee Performance	<---	Employee Engagement	0,357	0,428	-0,835	0,404	Hypothesis Accepted
Employee Performance	<---	Organizational Communication	-0,041	0,312	-0,133	0,894	Hypothesis Rejected
Employee Performance	<---	Compensation	1,615	0,806	2,003	0,045	Hypothesis Accepted

Source: Resource Data Processed (2023)

DISCUSSION

Influence of Communication on Employee Engagement

The results of hypothesis testing show that organizational communication has no significant effect on engagement. This does not support previous research by Hayase (2009), Mbhele (2016) which was carried out in Africa, as well as Balakrishnan & Masthan (2013) which stated that there was a relationship between internal communication and employee engagement. Veshne (2017) states that organizations need to focus on improving supervisor communication which will improve employee welfare and employee engagement.

Influence of Communication on Employee Performance

The results of hypothesis testing indicate that organizational communication has no significant effect on employee performance. The results of this study do not support the results of previous studies by Femi (2014), Chege & Ombui (2014) and Aka & Juliet (2018) which state that the communication process is a significant predictor of employee performance. The results of the analysis of Onifade & Okafor (2018) also show that there is a significant relationship between effective communication and employee performance. Research results by Hee et al. (2019) show that downward communication (DC) and horizontal communication (HC) have a significant positive effect on employee performance. This is possible because the work of employees in pawnshops is mostly an assessment of the value of the pawned goods, where the work is carried out independently and there are guidelines in carrying out the work so that communication is not required in completing the work.

Influence of Compensation on Employee Engagement

The results of hypothesis testing show that compensation has a positive and significant effect on engagement. This means that compensation will increase employee engagement. The results of this study support previous studies by Taufek et al. (2016), Waqas & Saleem (2014), and Alvi et al. (2014) also show that employee compensation can change the level of employee work engagement, as well as Hanif & Inayat (2017) which states that compensation is a determinant of employee engagement. The findings of Gill et al. (2014) states a strong relationship between compensation and the dimensions of employee engagement.

Influence of Compensation on Employee Performance

The results of hypothesis testing indicate that compensation has a positive and significant effect on employee performance. The results of this study support previous studies that compensation is a human resource management practice that has a significant influence on employee performance by Njoroge & Kwasira (2015), Nagaraju & Pooja (2017), Jean et al. (2017), as well as Akter & Husain (2016) which show that there is a strong and positive relationship between compensation and work performance. Etebu's research (2016) also shows that financial compensation has a significant effect on performance. This is supported by Omuya (2018) and Madiyanti et al. (2018).

Influence of Employee Engagement on Employee Performance

The results of testing the hypothesis that engagement has an effect on performance is accepted. This support previous research which shows a positive and significant effect of engagement on performance by researchers, namely Motyka (2018), Dajani (2015), and Siswono (2016) showing that employee engagement has a positive and significant effect on employee performance. Ramadhan & Sembiring's research (2015) shows that employee

engagement has a significant effect on performance, as well as research by Handoyo & Setiawan (2017), Yusuf et al. (2019), Markos & Sridevi (2010) stated that employee engagement is a stronger predictor of organizational and employee performance. This is also supported by Muliawan et al. (2017), and Azizah & Gustomo (2015). Only Kusumawati's research (2017) shows that employee engagement has no effect on employee performance variables.

CONCLUSION

Based on the results of hypothesis testing, it can be concluded that communication has no significant effect on employee engagement or employee performance. Compensation has a significant effect on employee engagement and on employee performance. Employee engagement have a significant effect on employee performance, thus employee engagement is a mediating variable, either the effect of compensation or the influence of organizational communication. Thus compensation is an important factors in improving employee performance.

Recommendation

Given that compensation is a factor that has a positive effect in increasing employee engagement and in improving performance, management needs to pay attention to and improve the compensation system for employees. The dimension with the highest loading factor is non-financial compensation, so it is advisable for management to reward employees because it will increase employee engagement and performance.

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