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The Effect of Mutation and Compensation on Employee Performance, with Work Motivation as a Mediating Variable, at the Six Foreign Investment Tax Service Office

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Abstract: This study aims to analyze the effect of mutation and compensation on employee performance with work motivation as a mediating variable at the Six Foreign Investment Tax Service Office. The study uses a quantitative approach. The population comprises all 132 active civil servant employees of the Six Foreign Investment Tax Service Office, with a sample of 122 respondents selected using purposive sampling. Data were collected via questionnaires in July 2026 and analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM) via SmartPLS 3. Results show all path coefficients (β) are positive, all p-values < 0.05, and all t-statistics > 1.96, so all hypotheses are accepted: (1) mutation positively and significantly affects work motivation; (2) compensation positively and significantly affects work motivation; (3) mutation positively and significantly affects employee performance; (4) compensation positively and significantly affects employee performance; (5) work motivation positively and significantly affects employee performance; (6) work motivation significantly mediates the effect of mutation on employee performance; and (7) work motivation significantly mediates the effect of compensation on employee performance. This study contributes theoretically by integrating Expectancy Theory and Equity Theory in the public tax sector context, and practically for human resource management policies within the Directorate General of Taxes.

Keyword: Mutation, Compensation, Work Motivation, Employee Performance, PLS-SEM.

INTRODUCTION

Strategic institutions such as the Directorate General of Taxes (DGT) play a vital role in the state treasury and rely heavily on the performance of their employees to measure the organization's success. The effectiveness of tax officials' performance impacts not only the organization itself but also national economic stability, given that tax revenue accounts for more than 74% of the State Budget (Ministry of Finance, 2024). The Six Foreign Investment Tax Service Office is one of the strategic work units within the DGT that has unique characteristics in serving foreign taxpayers with highly complex transactions. Internal data from The Six Foreign Investment Tax Service Office shows that the Organizational Performance Score (NKO) fluctuated during the 2021–2025 period, with a significant decline of 96.82% in 2025, indicating challenges in achieving organizational performance (Internal data from The Six Foreign Investment Tax Service Office, 2026).

Transfer or mutation policies are ideally designed as managerial tools for organizational renewal, mitigating burnout, developing macro-level competencies, and as a manifestation of the merit system (Cascio, 2013; Sparrow, 2015). Nevertheless, the implementation of routine mutations in the dynamic tax environment risks triggering disruption to adaptation, psychological uncertainty, and even a decline in performance if not properly mitigated (Sparrow, 2015). On the other hand, compensation—both financial and non-financial—serves as the primary external stimulus influencing employee retention and optimal contribution (Milkovich et al., 2014). A fair compensation system fosters strong moral commitment and professionalism, thereby driving improvements in the quality of employees' work outcomes (Gerhart & Rynes, 2003).

According to Expectancy Theory developed by Victor H. Vroom (1964), individuals will exert their best effort when they have a strong belief that such effort will result in maximum performance that is rewarded with personally meaningful compensation. Meanwhile, John Stacey Adams's Equity Theory (1965) asserts that motivation and work behavior are largely determined by perceptions of comparative fairness regarding what employees sacrifice and what they receive compared to their peers. When employees feel that promotions are conducted objectively based on competence and that compensation is distributed fairly, both their intrinsic and extrinsic motivation will increase, which in turn leads to improved performance (Deci & Ryan, 2000; Colquitt et al., 2001).

Although the relationships among these variables have been extensively studied, there remains a research gap in the form of inconsistencies in previous empirical findings. Some studies have found that organizational change has a positive impact on organizational flexibility (Collings et al., 2014; Sparrow, 2015), while other studies have indicated negative effects such as work-related stress and a temporary decline in performance (Prianto et al., 2026). The scarcity of literature examining the role of motivation as a mediating variable simultaneously within tax agencies—particularly The Six Foreign Investment Tax Service Office—underpins the urgency of this study.

Based on the above, this study aims to: 1. Analyze the effect of mutation on employee performance; 2. Analyze the effect of compensation on employee performance; 3. To analyze the effect of mutation on work motivation; 4. To analyze the effect of compensation on work motivation; 5. To analyze the effect of work motivation on employee performance; 6. To analyze the mediating effect of work motivation in the relationship between mutation and employee performance; 7. To analyze the mediating effect of work motivation in the relationship between compensation and employee performance.

To guide the focus of the analysis in this discussion, the following research questions have been formulated: 1. Does mutation affect employee performance?; 2. Does compensation affect employee performance?; 3. Does mutation affect work motivation?; 4. Does compensation affect work motivation?; 5. Does work motivation affect employee performance?; 6. Does work motivation mediate the effect of mutation on employee performance?; 7. Does work motivation mediate the effect of compensation on employee performance?.

METHOD

This study employs a quantitative approach with an explanatory research design to test hypotheses and explain the relationships among variables and their causes (Creswell & Creswell, 2018). This design was applied to examine the effects of mutation and compensation on performance through mediating variables.

Primary data collection was conducted at a single point in time (cross-sectional) in July 2026 at The Six Foreign Investment Tax Service Office. This location was purposely selected based on the strategic consideration that this work unit faces complex challenges in managing foreign corporate taxpayers as well as demands to achieve revenue targets that are relatively higher than those of the KPP Pratama.

The population in this study comprises all active civil servants (ASN) assigned to The Six Foreign Investment Tax Service Office in 2026, totaling 132 employees. The sampling technique employed purposive sampling to select respondents based on their willingness to complete the questionnaire in full. Referring to the provisions for structural equation modeling, the minimum sample size was set at ten times the total number of operational indicators (Hair et al., 2021). Through this approach, a final sample of 122 ASN respondents who met the testing criteria was obtained.

Primary data collection was conducted using a structured questionnaire distributed digitally via a direct Google Forms link to respondents, utilizing a five-point Likert scale. The operationalization of the transfer variable was measured through the dimensions of job competency fit, process transparency, and organizational support. The compensation variable was broken down into indicators of salary and allowances, incentive bonuses, and non-financial rewards. The work motivation variable was assessed through the aspects of intrinsic motivation, extrinsic motivation, and task commitment. Finally, the employee performance variable was measured using indicators of quantity, quality, and timeliness of task completion.

The collected data were analyzed using the Partial Least Squares-Structural Equation Modeling method with the assistance of SmartPLS 4 software. The data analysis stages involved evaluating the measurement model (outer model), evaluating the structural model (inner model), and testing hypotheses using the bootstrapping procedure.

RESULTS AND DISCUSSION

Result

A descriptive analysis of respondent characteristics shows that the profile of employees at The Six Foreign Investment Tax Service Office is dominated by men, numbering 87 (71.3%), while female employees number 35 (28.7%). In terms of age range, the majority of respondents were in the prime productive phase, namely those aged 30–45 years, totaling 74 people (60.7%), followed by employees over 45 years old, totaling 32 people (26.2%), and employees under 30 years old, totaling 16 people (13.1%). In terms of highest level of education, the group was dominated by Bachelor's degree (S1) holders, totaling 67 people (54.9%), and Master's degree (S2) holders, totaling 37 people (30.3%), indicating a very adequate level of intellectual capacity among the employees. Meanwhile, based on the distribution of organizational positions, the largest share is held by Supervisory Staff, totaling 43 people (35.2%), and Inspector Staff, totaling 34 people (27.9%).

The results of the descriptive analysis of the variables show that the mean scores fall within the high category for all constructs. The employee performance variable received an average score of 3.98, with the timeliness indicator achieving the highest score of 4.00. The transfer construct recorded an average score of 3.97, with the perception of procedural fairness achieving the highest score of 4.00. The compensation variable achieved an average of 3.98, with non-financial aspects rated as the most optimal at 4.00. For work motivation, the average score was 3.98, with intrinsic motivation dominating at a score of 4.01.

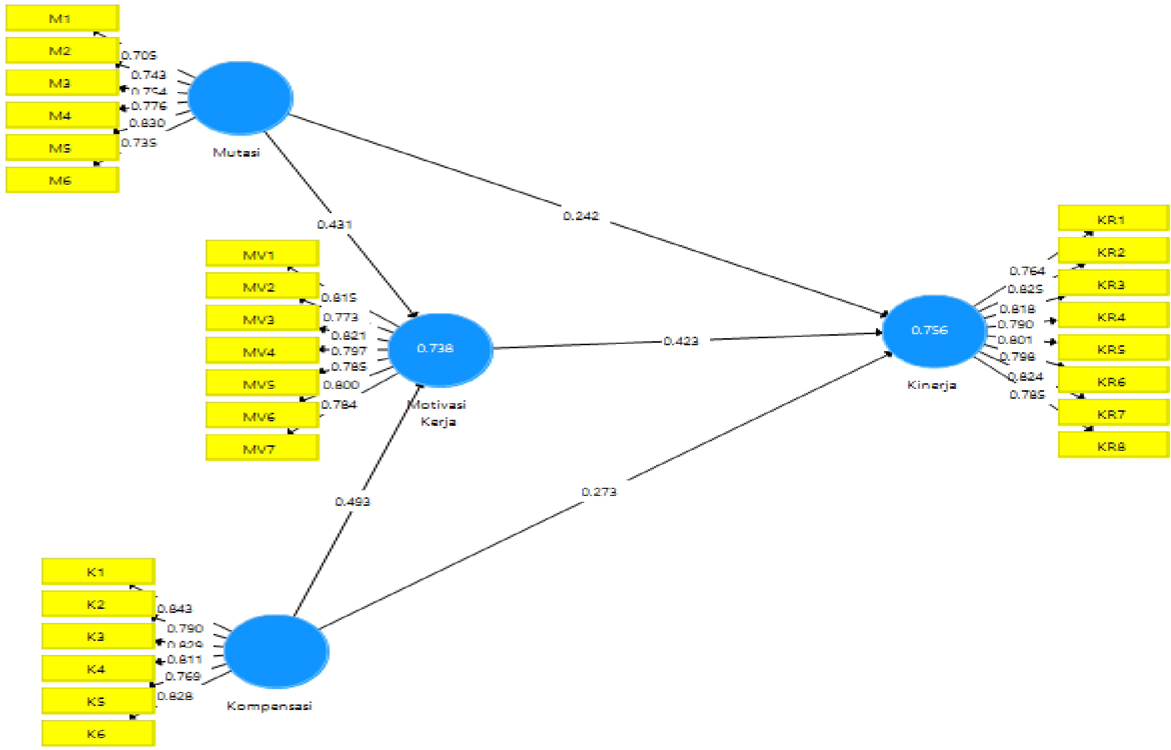

Figure 1 Result PLS Algorithm
Source: The primary data was processed using SmartPLS 4, 2026

During the measurement model (outer model) evaluation phase, the convergent validity test showed that all indicators had outer loadings ranging from 0.705 to 0.843. These values exceeded the required critical threshold of 0.70; therefore, all indicators were deemed valid in reflecting their latent variables. Discriminant validity testing using cross-loading parameters showed that each indicator had the highest correlation with its own variable compared to other constructs. Although the HTMT value between work motivation and employee performance recorded a figure of 0.914—slightly exceeding the ideal threshold of 0.90—this is tolerable due to the close conceptual relationship between psychological drives and the behavioral manifestations of employee work performance. The reliability evaluation yielded Cronbach's Alpha and Composite Reliability values above 0.70 for all constructs, demonstrating that the internal consistency of the research instrument is highly reliable. In the multicollinearity test, the VIF values for all variables were < 5.00 (range 2.135–3.815), indicating that multicollinearity did not occur.

The evaluation of the structural model (inner model) yielded a coefficient of determination (R^2) for the work motivation variable of 0.589, indicating that 58.9% of the variability in employee motivation is driven by the interaction between mutation and compensation. The R^2 value for employee performance reached 0.672, meaning that 67.2% of the variation in employee work performance can be explained simultaneously by mutation, compensation, and their level of work motivation. The effect size analysis (f^2) demonstrates that compensation has a large impact on the formation of work motivation ($f^2 = 0.434$), while mutation has a moderate influence ($f^2 = 0.332$). In the predictive validity test (Q^2), values of 0.455 were obtained for work motivation and 0.479 for employee performance. Since both values are well above zero, this model is deemed to have excellent exogenous predictive capacity. The fit of the empirical model is further supported by a Standardized Root Mean Square Residual (SRMR) value of 0.054, which meets the fit criterion of less than 0.08.

Hypotheses regarding causal pathways and mediating effects were rigorously tested using t-statistics and p-values derived from the SmartPLS 3 bootstrapping algorithm, as summarized in the table below:

Table 1 Hypothesis Test Results

Hypothesis	Effect	Path Coefisien	t-statistic	p-value	Result
H1	Mutation → Employee Performance	0,424	6,535	0,000	Signifikan
H2	Compensation → Employee Performance	0,482	7,636	0,000	Signifikan
H3	Mutation → Work Motivation	0,431	6,530	0,000	Signifikan
H4	Compensation → Work Motivation	0,493	7,778	0,000	Signifikan
H5	Work Motivation → Employee Performance	0,423	5,273	0,000	Signifikan
H6	Mutation → Work Motivation → Employee Performance	0,182	4,009	0,000	Signifikan
H7	Compensation → Work Motivation → Employee Performance	0,208	4,376	0,000	Signifikan

Source: The primary data was processed using SmartPLS 4, 2026

Discussion

Based on the data presented in the table of hypothesis test results above, an in-depth analysis of the research findings is presented as follows: 1. The Effect of Mutation on Employee Performance: The results of the study indicate that mutation have a positive and significant effect on employee performance ($\beta = 0.424$, $t = 6.535$, $p = 0.000$). This finding is consistent with the theories of Cascio (2013) and Sparrow (2015), which state that competency-based mutation can improve performance through the renewal and development of competencies. At The Six Foreign Investment Tax Service Office, the implementation of mutation based on competency alignment, the principle of fairness, and support during the adaptation period provides employees with the opportunity to develop their abilities in accordance with the job characteristics of their new work unit..

2. The Effect of Compensation on Employee Performance: Compensation has a positive and significant effect on employee performance ($\beta = 0.482$, $t = 7.636$, $p = 0.000$). These results support the theories of Milkovich et al. (2014) and Gerhart & Rynes (2003), which state that fair and performance-based compensation can increase productivity, while also validating Vroom's Expectancy Theory (1964), in which employees' expectations of receiving fair rewards motivate them to devote their best efforts toward achieving organizational goals. At The Six Foreign Investment Tax Service Office, the compensation system—which includes salary, allowances, performance-based incentives, and non-financial compensation—serves as a driving factor in improving employee performance..

3. The Effect of Mutation on Work Motivation: Mutation has a positive and significant effect on work motivation ($\beta = 0.431$, $t = 6.530$, $p = 0.000$). Mutations managed objectively and transparently foster a renewed sense of psychological enthusiasm among employees to demonstrate their capabilities in a new work environment. New experiences and the challenges of resolving tax issues in the foreign taxpayer segment act as triggers for a growth mindset, which increases individuals' levels of intrinsic motivation (Sparrow, 2015). These findings are consistent with Vroom's Expectancy Theory (1964) and Adams' Equity Theory (1965), which state that fair, performance-based organizational policies can enhance work motivation. 4. The

Effect of Compensation on Work Motivation: Compensation has a positive and significant effect on work motivation (β = 0.493, t = 7.778, p = 0.000). These results confirm the validity of Adams's Equity Theory (1965) within a bureaucratic ecosystem, which asserts that work motivation will reach its optimal level when an institution is able to create distributive and procedural equity within its compensation system. Employees view adequate compensation as a tangible form of recognition for the heavy workload they bear..

5. The Effect of Work Motivation on Employee Performance: Work motivation has a positive and significant effect on employee performance (β = 0.423, t = 5.273, p = 0.000). Strong psychological drives, whether stemming from intrinsic satisfaction or environmental rewards, are linearly correlated with the intensity of task commitment. Employees with high motivation demonstrate superior perseverance, minimal work errors, and disciplined time management in completing tax services. These results support the research by Deci & Ryan (2000) and Judge et al. (2017), which found that intrinsic and extrinsic motivation can improve performance.

6. The Mediating Role of Work Motivation in the Effect of Transfer on Employee Performance: Work motivation was found to mediate the effect of transfer on employee performance (β = 0.182, t = 4.009, p = 0.000). This mediation was found to operate significantly as a partial mediation mechanism. This finding clarifies the inconsistencies in past scientific debates by affirming that transfer policies do not automatically boost performance outcomes in a mechanistic manner. Transfer policies must first address the psychological aspect of enhancing work motivation to ensure a smooth adaptation to new tasks, ultimately leading to optimal individual performance. These findings indicate that transfer policies not only have a direct effect on performance but also an indirect effect through increased work motivation.. 7. The Mediating Role of Work Motivation in the Effect of Compensation on Employee Performance: Work motivation was found to mediate the effect of compensation on employee performance (β = 0.208, t = 4.376, p = 0.000). This mediating effect confirms that substantial financial compensation will generate a multiplied boost in performance if employees convert the reward system into sustained work motivation. Compensation fairness fosters psychological satisfaction, which promotes long-term stability in employee performance. These findings indicate that compensation policies not only have a direct effect on performance but also an indirect effect through increased work motivation.

CONCLUSION

Based on the research findings and discussion, it can be concluded that mutation and compensation have a positive and significant effect on the performance of employees at The Six Foreign Investment Tax Service Office. Work motivation also has a positive and significant effect on employee performance. Furthermore, work motivation was found to mediate the effects of mutation and compensation on employee performance. These conclusions address all the research questions and are consistent with the established research objectives.

The implications of this study for the field of human resource management are the development of an integrative model that simultaneously examines mutation, compensation, motivation, and performance within the context of the public sector, particularly tax organizations. This study provides support for Expectancy Theory and Equity Theory within the context of Indonesian public organizations. For practitioners, this study provides an evidence-based foundation for the DGT to design more strategic, competency-based transfer policies that take into account employees' psychological aspects, as well as to improve the compensation structure to make it fairer, more transparent, and performance-based in order to enhance employee motivation and productivity in the long term.

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