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The Impact of Organizational Culture, Work Environment, and Wage Levels on Employee Performance in SMEs in Indonesia

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Abstract: This study aims to analyze the impact of Organizational Culture, Work Environment, and Wage Level on Employee Performance in Small and Medium Enterprises (SMEs) in Indonesia. The research method used was quantitative with data analysis using Partial Least Squares (PLS) version 3.0. The number of respondents was 170 from SME employees in Indonesia. The analysis shows that Organizational Culture has a strong positive influence on Employee Performance with a T-statistical value of 6.527 and a P value of 0.000, which indicates a very high statistical significance. The Work Environment was also proven to have a positive influence on Employee Performance with a T-statistical value of 4.478 and a P value of 0.000, which showed very high statistical significance. The relationship between Wage Level and Employee Performance showed weaker results with a T-statistical value of 1.776 and a P value of 0.076. This indicates that this relationship is not statistically significant at the conventional level of significance. Keywords: Organizational Culture, Work Environment, Wage Level. The analysis shows that Organizational Culture has a strong positive influence on Employee Performance with a T-statistical value of 6.527 and a P value of 0.000, which indicates a very high statistical significance. The Work Environment was also proven to have a positive influence on Employee Performance with a T-statistical value of 4.478 and a P value of 0.000, which showed very high statistical significance. The relationship between Wage Level and Employee Performance showed weaker results with a T-statistical value of 1.776 and a P value of 0.076. This indicates that this relationship is not statistically significant at the conventional level of significance.

Keywords: Organizational Culture, Work Environment, Wage

INTRODUCTION

Employee performance is an important factor in the success and growth of Small and Medium Enterprises (SMEs) in Indonesia (Soekarno et al., 2020). Several key elements that can affect employee performance have been identified, including organizational culture, work environment, and wage levels (Riwukore et al., 2021). Understanding the impact of these

factors is crucial for MSMEs to develop strategies to improve employee productivity and overall organizational performance. Understanding the impact of these factors is very important for SMEs to develop strategies to improve employee performance and overall organizational performance. (Mohiya et al., 2020). Organizational culture has been shown to have a significant impact on the long-term performance of a company's employees. A strong and performance-enhancing organizational culture can motivate employees and can help employees reach their full potential (Saleh, 2022).

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Organizational culture has been shown to have a significant impact on the long-term performance of a company's employees. A strong and performance-enhancing organizational culture can motivate employees and can help employees reach their full potential (Saleh, 2022). On the other hand, an unhealthy organizational culture can hinder performance, even among intelligent and capable employees. Aspects of organizational culture such as leadership, reward systems, and communication patterns can all affect employee attitudes, behaviors, and ultimately performance (Wasito et al., 2021). The influence of organizational culture on employee performance A strong organizational culture that aligns with company goals can increase employee motivation, commitment, and performance

The environment in which employees work can also affect their performance (Arilaha et al., 2020). Factors such as workspace design, access to necessary resources, and interpersonal relationships with colleagues can all contribute to an employee's ability to carry out his or her responsibilities effectively (Aisyah et al., 2020). According to him, the work environment is everything that surrounds workers and can influence them in carrying out the tasks assigned to them (Zakaria et al., 2020). Additional factors that can affect employee performance include employee motivation and work discipline. . Performance is closely related to employee motivation, job satisfaction, and overall work discipline. (Kusuma et al., 2019) Improving these factors can improve employee performance. The influence of the work environment on employee performance The work environment, both physical and social, affects the ability of employees to carry out their responsibilities effectively. Factors such as workspace design, access to necessary resources, and interpersonal relationships with coworkers contribute to employee performance. (Candra et al., 2022)

The level of wages paid to employees can also play an important role in their performance. Employee performance is directly influenced by the amount of wages received. Employees who are satisfied with their compensation tend to be more motivated and productive, resulting in better organizational results (Paulus, 2022). On the other hand, low wages can reduce employee motivation and negatively impact their performance (Setiawan et al., 2023). Effect of wage level on employee performance The level of wages employees receive directly affects their performance. Employees who are satisfied with their compensation tend to be more motivated and productive, improving organizational results. Conversely, low wages can lower employee motivation and negatively impact performance (Hidayah et al., 2021).

METHOD

This study investigates the influence of organizational culture, work environment, and wage level on employee performance in SMEs in Indonesia, a quantitative research approach will be adopted. A survey will be conducted to collect data from a sample of MSME employees in various industries in Indonesia (Thaha et al., 2022). The survey will include steps to assess key variables:

1. Organizational Culture, Measured using validated organizational culture assessment instruments that evaluate dimensions such as leadership, communication, and reward systems. (Martdianty et al., 2020)
2. Work environment, Measured using items describing physical workspace, access to resources, and perception of the social environment (Saurage-Altenloh et al., 2023).
3. Wages, Measured through self-reported data regarding the level of compensation, including base salary and any additional allowances or incentives. (Anggraini et al., 2021)
4. Employee performance, Measured using a multidimensional scale that captures indicators such as work quality, productivity, and overall work effectiveness. (Allamani et al., 2022)

The analysis using SEM PLS tested the influence between independent variables (organizational culture, work environment, wages) and dependent variables of employee performance. The findings of this study will provide valuable insights for MSME owners and managers in Indonesia regarding important factors that affect employee performance (Rusli, 2020). By understanding the impact of organizational culture, work environment, and wages, MSMEs can develop targeted strategies to attract, retain, and motivate high-performing employees, ultimately contributing to their business growth and success.

RESULTS AND DISCUSSION

Table 1. Average Variance Extracted (AVE)

Average Variance Extracted (AVE)	
Organizational Culture (BO)	0,701
Performance (KK)	0,677
The Work Environment (LK)	0,631
Wages (UP)	0,769

Organizational Culture (BO) has an AVE of 0.701, indicating that 70.1% of the variance in the observed variables is due to the underlying constructions of organizational culture. Employee Performance (KK) has an AVE of 0.677, indicating that 67.7% of the variance in employee performance is explained by latent constructs.

The Work Environment (LK) has an AVE of 0.631, meaning that 63.1% of the variance in the work environment is captured by constructs.

Wages (UP) had the highest AVE value of 0.769, implying that 76.9% of the wage variance was due to underlying construction. Based on table 1, it can be seen that Organizational Culture (0.701), Work Environment (0.631), Wages (0.769) and Employee Performance (0.677) have an AVE value of > 0.5. With demikian, it can be concluded that each variable has good validity

Table 2. Composite Reliability

Composite Reliability	
Organizational Culture (BO)	0,876
Performance (KK)	0,936
The Work Environment (LK)	0,911
Wages (UP)	0,869

Organizational Culture (BO) has a Composite Reliability of 0.876, indicating a high level of internal consistency in measuring this factor.

Employee Performance (KK) shows a Composite Reliability of 0.936, indicating very high reliability in assessing employee performance.

The Work Environment (LK) has a Composite Reliability of 0.911, indicating a strong level of internal consistency in measuring work environment factors.

Wages (UP) show Composite Reliability 0.869, which also reflects a high level of reliability in measuring compensation aspects. Based on table 2, it can be seen that the composite reliability values of variables, organizational culture (0.876), work environment (0.911), wages (0.869), employee performance (0.936) > 0.6 so it can be concluded that all variables have high reliability.

Table 3. Discriminant Validity

	Organizational Culture (BO)	Performance (KK)	The Work Environment (LK)	Wages (UP)
Organizational Culture (BO)	0,837			
Performance (KK)	0,689	0,823		
The Work Environment (LK)	0,536	0,578	0,794	
Wages (UP)	0,178	0,168	-0,013	0,877

The correlation between Organizational Culture (BO) and itself is 0.837, which is higher than its correlation with other constructs, indicating a good validity of discrimination. Employee Performance (KK) showed a correlation of 0.823 with itself, higher than its correlation with other constructions, supporting the validity of discrimination. The Work Environment (LK) also showed the validity of discrimination because the correlation with itself (0.794) was higher than with other constructions. The correlation between Salary (UP) and itself is 0.877, indicating a good validity of discrimination.

Based on the Table. 3 The HTMT value of each research variable, it can be concluded that all variables have good discriminatory validity

Table 4. R. Square

	R Square	R Square Adjusted
Performance (KK)	0,542	0,534
Wages (UP)	0,048	0,037

Employee Performance (KK) has an R Square value of 0.542, which means that about 54.2% of the variance in the dependent variable can be explained by the independent variable of KK. This shows a relatively strong relationship between KK and dependent variables. The Adjusted R Square value for KK is 0.534, slightly lower than the R Square value. This suggests that the model may slightly overestimate the goodness of the match due to the presence of KK as a predictor.

Wages (UP) has a much lower R Square value of 0.048, indicating that only about 4.8% of the variance in the dependent variable described by UP. This shows a weak relationship between UP and dependent variables.

The Square Adjusted R value for (UP) was even lower at 0.037, indicating that the inclusion of UP as a predictor did not significantly improve model fit. Based on table 4, the results of the R-Square value test on the performance of employees of the R-Square Adjusted line model using direct influence are 0.534. This means that the ability of variables,

organizational culture, and work environment in explaining employee performance is 53.4%. Thus, the model is classified as moderate. Meanwhile, the R-Square test against Wages is R-Square Adjusted for the direct influence path model of 0.592. This means that the wage in explaining employee performance is 0.037 by 3.37%. Thus, the model is classified as weak

Table 5 F. Square

	Organizational Culture (BO)	Performance (KK)	The Work Environment (LK)	Wages (UP)
Organizational Culture (BO)		0,388		0,051
Performance (KK)				
The Work Environment (LK)		0,142		0,017
Wages (UP)		0,014		

Based on table 5, the results of the F-Square value test of the organizational culture variable on employee performance have a value of $F^2 = 0.388$. So there is a strong influence between exogenous variables and endogenous variables. The variable of the work environment for employee performance has a value of $F^2 = 0.142$. So there is a strong influence between exogenous variables and endogenous variables. The wage variable on employee performance has a value of $F^2 = 0.014$. So there is a weak influence between exogenous variables and endogenous variables.

Table 6. Direct influence

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Organizational Culture (BO) (->Performance (KK))	0,511	0,512	0,078	6,527	0,000
The Work Environment (LK) -> Performance (KK)	0,305	0,309	0,068	4,478	0,000
Wages (UP)-> Performance (KK)	0,081	0,081	0,045	1,776	0,076

Results

H1 Organizational Culture (BO) affects Employee Performance (KK):

The T-statistical value of 6.527 shows a strong positive relationship between Organizational Culture and Employee Performance. A P value of 0.000 indicates that this relationship is statistically significant.

H2. Work Environment (LK) affects Employee Performance (KK):

The T-statistical value of 4.478 shows a positive relationship between the Work Environment and Employee Performance. A P value of 0.000 indicates that this relationship is statistically significant.

H3. Wages (UP) Affect Employee Performance (KK):

The statistical value of T 1,776 indicates a weaker relationship between Wages and Employee Performance. A P value of 0.076 implies that this relationship is not statistically significant at the conventional significance level (usually 0.05).

The results of the study highlight the importance of Organizational Culture and Work Environment in significantly influencing Employee Performance. While wages also play a role, but the impact is not as strong as other factors studied, this can happen because most MSMEs are not large companies so the amount given is also not too large and this will have an impact not too strong to directly affect employee performance.

Understanding these immediate effects can help organizations focus on improving Organizational Culture and Work Environment to effectively improve Employee Performance.

These findings underscore the importance for SME leaders in Indonesia to holistically address the determinants of employee performance. Developing a positive organizational culture, providing a conducive work environment, and offering fair and competitive wages can all contribute to improving employee performance and, in turn, the overall success of the company.

This section contains data (in brief form), data analysis, and interpretation of the results. Results can be presented in tables or graphs to clarify the results verbally because sometimes the display of an illustration is more complete and informative than the display in narrative form.

This section must answer the problems or research hypotheses that have been formulated previously.

CONCLUSION

This study highlights the influence of Organizational Culture, Work Environment, and Wage Level on Employee Performance in SMEs in Indonesia using quantitative methods and PLS 3.0 analysis. The results of the study show that:

1. Organizational Culture (BO) has a significant effect on Employee Performance (KK)
With a T-statistical value of 6.527 and a P value of 0.000, there is a strong and statistically significant positive relationship between Organizational Culture and Employee Performance. This indicates that employees who work in a positive organizational culture tend to perform better.
2. The Work Environment (LK) has a significant effect on Employee Performance (KK).
The results of the analysis showed a statistical T-value of 4.478 and a P value of 0.000, which also showed a positive and statistically significant relationship. A conducive work environment that supports employee performance can increase productivity and work effectiveness.
3. Wage Level (UP) does not have a significant effect on Employee Performance (KK)
The statistical T-value of 1.776 and the P value of 0.076 indicate that the relationship between Wage Level and Employee Performance is not statistically significant at the conventional significance level (0.05). Although wages are an important factor, these results show that wages are not the only factor that affects employee performance.

Suggestion

1. Strengthening Organizational Culture:
SMEs in Indonesia should focus on strengthening a positive organizational culture. Through strong values, a clear vision, and supportive practices, organizations can create an environment that motivates employees to achieve optimal performance.
2. Improved Work Environment:
It is important for management to create and maintain a healthy and supportive work environment. This includes physical aspects, such as workplace cleanliness and comfort, as well as non-physical aspects such as social support and harmonious employee relationships.
3. Competitive Wage Policy:
Although the results of the study show that wage levels do not significantly affect employee performance, management must still ensure that the wage policy offered is competitive and fair. This is important for attracting and retaining qualified employees.

4. Holistic Approach in Performance Management Management Management needs to adopt a more holistic approach in managing employee performance. In addition to wages, attention must also be paid to skill development, recognition of achievements, and the balance of work and personal life of employees.

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