The Effect of Compensation on the Performance of Automotive Company Sales Division Employees: The Role of Work Discipline as a Mediator

R. Joko Sugiharjo[1], Rr. Niken Purbasari[2], Abdul Rahmat[3], Paijan Paijan[4]
[1]Fakultas Ekonomi dan Bisnis, Universitas Mercu Buana, Jakarta, Indonesia, email: r.joko@mercubuana.ac.id
[2]Trisakti School of Management (TSM), Jakarta, Indonesia, email: npurbasari@stietrisakti.ac.id
[3]Fakultas Ekonomi dan Bisnis, Universitas Mercu Buana, Jakarta, Indonesia, email: abdul.rahmat@mercubuana.ac.id
[4]Fakultas Ekonomi dan Bisnis, Universitas Mercu Buana, Jakarta, Indonesia, email: paijan@mercubuana.ac.id

Corresponding Author: r.joko@mercubuana.ac.id[1]

Abstract: The growth of the automotive industry has a significant role in encouraging economic growth through empowering Human Resources (HR) which contributes to driving a productive economy. Managing the performance of automotive company HR or employees is an important aspect for management to maintain the company's sustainable success. This research was conducted to determine the effect of compensation and work discipline on the performance of company sales division employees in one of the well-known automotive industries in Jakarta. Researchers used SEM (Structural Equation Modeling) analysis to predict the effect of compensation and work discipline on employee performance, using a quantitative descriptive and causal approach. Random sampling technique was used with a sample size of 108 sales division employees. The results of this research are that compensation has a negative and insignificant effect on employee performance, while compensation has a positive and significant effect on work discipline and work discipline has a positive and significant effect on employee performance. Apart from that, work discipline positively and significantly mediates between compensation and employee performance.

Keyword: Employee Performance, Work Discipline, Compensation

INTRODUCTION

The growth of the automotive industry is an indicator of economic growth in Indonesia. This can reflect efforts to utilize Human Resources (HR) and encourage successful productive economic activities. The increase in demand for four-wheeled vehicles can reflect an increase in purchasing power. The ability of automotive companies to utilize consumer purchasing power by utilizing the company's human resources to reach target markets is a problem for company management. In the midst of competition between various vehicle brands in the

automotive industry in Indonesia, it is important for management to have the ability to manage productive employees as demonstrated by employee performance. The growth of the automotive industry in Indonesia since recovering from the COVID pandemic, during January, February to December throughout 2021, 2022 and October 2023 have experienced quite interesting fluctuations. Based on data sourced from The Association of Indonesia Automotive Industries, consumer demand for four-wheeled vehicles throughout 2021-2022 showed an increase, and decreased until October 2023. In 2021 the average demand reached more than 73,000 units, in 2022 experienced an increase in average demand of more than 87,000 units and throughout 2023 until October the average demand was recorded at more than 83,000 vehicle units (GAIKINDO, 2023).

The growth in demand for vehicles when compared in October 2021 with October 2022 increased by 23.4% and conversely, demand in October 2023 compared to the previous year decreased by 13.9% for vehicle units. The decline in demand for vehicles in the automotive industry can reflect performance problems in automotive companies which can also explain employee performance problems. Employee performance is important in the business world because business phenomena show dynamic changes in competition (Purbasari et al., 2022). The success of automotive companies in achieving the expected sales levels is determined by employee performance, especially sales division employees. The success of employees in the sales division is reflected in the ability of the sales force to provide the best work results through achieving sales performance.

Employee performance is how well employees carry out the duties and responsibilities given by the company to their position. Employee performance is a result that can be demonstrated by employees both in quality and quantity which is important for the success of the organization (Sugiharjo et al., 2023). Employee performance indicates an individual's work achievements after exerting the necessary effort in the work associated with obtaining meaningful work (Pradhan & Jena, 2018). Good performance management will open up opportunities for business management to be able to compete and remain a leading automotive company in Indonesia.

Much research has been conducted related to performance issues, many factors can influence and determine employee performance. However, research on employee performance still needs to be carried out because the findings show that there are still differences in causal factors in organizations that are connected to HR which have an impact on employee or company performance. This research was conducted to predict and find out how compensation and discipline influence employee performance, both directly and indirectly by placing work discipline as a variable that mediates the influence of compensation on employee performance. Various studies on the effect of compensation on employee performance have concluded different results or findings, therefore research on these variables still needs to be developed.

Compensation is a reward received by an employee as remuneration for his contribution to the organization. Compensation is also defined as all forms of financial gain and tangible services and benefits that employees receive as part of the employment relationship. It was further explained that compensation for employees is the main source of financial security, employee rights to the company and appreciation for work well done. Compensation for companies is part of a large expenditure, which can be used to influence employee behavior and improve performance (Milkovich et al., 2013). Other studies also conclude the same results that compensation can influence employee performance (Arif et al., 2019; Lorensa et al., 2020; Pranata, Hendri, Purbasari, 2021; Sutoro, 2019). Every increase in compensation will be followed by an increase in employee performance. Employees will be encouraged to work better with adequate rewards or compensation. Contrary results in other research concluded that compensation does not directly affect employee performance (Nalim et al., 2020; Yani, 2021).

Studies on compensation and work discipline conclude that compensation has an influence on work discipline. Compensation that is felt to be fair and adequate will increase employee discipline behavior. Compensation in the form of money can be given by companies to employees in exchange for expected behavior, such as compliance with regulations or discipline. In line with research findings which state that compensation influences employee work discipline (Hajiali et al., 2022; Puput Maretha Sari, Supardi A. Bakri, 2015). The better the compensation the company provides to its employees, the higher the employee's work discipline. That the size of compensation can affect employee work performance, discipline and job satisfaction (Putra, 2022).

Work discipline is not only important for the success of individual employees in achieving their goals, but also for the success of the company in achieving the goals that have been set together. Discipline refers to a condition in a company when employees behave in accordance with the rules and standards of acceptable behavior (Robbins, P Stephen, 2017). It is not easy for a company to achieve optimal results or performance without good employee work discipline. Discipline is the main operational function of HR management, because the better the employee's discipline, the better their work performance or performance (Prasetyo et al., 2021). This is in line with several research results which state that work discipline has a positive influence on employee performance (Astuti & Amalah, 2018; Butarbutar & Nawangsari, 2022; Nurasia, 2022). These findings explain that managing employee work discipline is an important aspect in managing human resources to form work attitudes and behavior that encourage the achievement of company goals.

Based on the phenomena that have been described from various findings and concepts of the importance of compensation and work discipline to improve employee performance. This research was conducted to predict the direct influence of compensation and work discipline on employee performance. Whether the role of work discipline as a mediator influences compensation on employee performance is interesting to examine. Predicting the role of work discipline as a mediator that determines the influence of compensation on performance needs to be done with the assumption that when compensation does not directly affect employee performance, but has an impact on work discipline and does not have a direct impact on employee performance, it is possible that work discipline is a variable that mediates the influence compensation for employee performance.

Based on the description of the phenomenon regarding compensation, work discipline and employee performance above. This research was conducted to predict the effect of compensation and work discipline on employee performance, by placing work discipline as a mediating variable. The object of this research is an automotive company in Jakarta with a population of non-managerial employees in the sales division with an unknown number of subjects. This research literature review is then discussed.

Compensation is a systematic approach to providing monetary value to employees as a reward for the work performed (Patnaik, 2014). Compensation refers to all forms of payment that the company provides to employees and arises from the work for which they are responsible (Dessler, 2013). Compensation is various forms of rewards that employees receive as remuneration for employee services and/or contributions in the form of knowledge, skills, abilities, attitudes, time and commitment to the work for which they are responsible. Compensation consists of financial compensation and non-financial compensation, which is given directly or indirectly. Various forms of compensation that can be given to employees, such as salary or wages, commission, overtime payments, bonuses, profit sharing, payment for performance, incentives or allowances, as well as various benefits or benefits provided by the company such as insurance, health clinics, holidays, leave, pension system and so on (Dessler, 2015; Milkovich et al., 2013).

Planning effective compensation by management is very necessary to achieve company

goals. Compensation is designed effectively as an adequate and satisfying reward for employees with the aim of: (1) attracting the best human resources to work in the company, (2) retaining human resources who are already working and needed to stay in the company, (3) motivating employees to work on performance the best and (4) increasing employee work morale including work discipline, compliance with work ethics and developing attitudes and behavior that comply with the norms and regulations applicable in the company (Dessler, 2015; Milkovich et al., 2013; Opatha, 2018). Confirming this, compensation has a positive and significant influence on employee performance (Adanlawo et al., 2023; Fulmer et al., 2023). This discussion raises the suspicion that:

H1: compensation positively and significantly influences work discipline
H2: compensation positively and significantly influences employee performance

Discipline can be a force that encourages individuals or groups to comply with the rules and procedures necessary for the company's activities to function effectively (Sugiharjo, 2016). Work discipline is a person's behavior that reflects awareness and willingness to comply with applicable organizational regulations in accordance with the responsibilities given to him. When employees have high work discipline, employees will obey the rules and implement applicable provisions, so that high performance will be created. So, with high work discipline, employees can show high performance (Syamsuddin et al., 2021). Discipline in carrying out duties and responsibilities at work is very important and will have an impact on the company's performance and goals in the future (Arifin et al., 2022).

Managing employee discipline involves a systematic process consisting of eight stages (Opatha, 2018), namely: (a) setting goals to be achieved accompanied by clear policies, (b) establishing rules of behavior that employees must obey and stating the reasons for each rule, (c) establishing sanctions for violations of regulations and the authorities who can apply sanctions for employees who violate regulations, (d) communicating to all employees to build awareness and understanding of the purpose of discipline, (e) establishing regulations, reasons, sanctions and authority to impose punishment, (f) observing the employee's actual appropriate behavior. The behavior referred to can be in the form of punctuality, how to use work equipment, carrying out responsibilities, and compliance with work rules (Iptian & Efendi, 2020), (Arif et al., 2019) determine appropriate penalties or sanctions if violations occur and take necessary progressive disciplinary action, (Sutoro, 2019) through reviewing and updating regulations and other disciplinary programs.

Performance can simply be defined as behavior that produces something or work with achieved goals (Purbasari & Septian, 2017). Performance is the result of work achieved in a good organizational climate, based on fairness towards employees and communication between colleagues and superiors. It was further explained that performance as a result of individual efforts is influenced by individual ability attributes (knowledge, skills, experience), as well as organizational support (Gîlmeanu, 2015). Performance refers to the work results achieved by employees in behaving and carrying out work based on ability, time, specified work standards, communication and a good work climate. The term performance is defined as the final ability of an individual (employee) to use his knowledge and skills efficiently and effectively (Khan & Nawaz, 2016). In line with the compensation objectives previously explained, the research results conclude that compensation has a positive influence on employee performance and work discipline. Good compensation has an impact on improving performance and good work discipline. The higher the compensation the company provides to employees, the better their work performance and discipline (Iptian & Efendi, 2020; M Soelton & Pratama, 2018). This discussion raises the suspicion that:

H3: work discipline positively and significantly influences employee performance
H4: work discipline positively and significantly mediates compensation and employee performance

METHOD

This research uses descriptive statistical analysis and SEM analysis. Descriptive statistics are summaries of data, which may be tabular, graphical, or numerical. The descriptive statistics used in this research are frequency distributions, which refer to summary data tables that show the number (frequency) of items in each of several categories or classes (Anderson et al., 2017). SEM analysis is used to examine the structure of relationships expressed in a series of equations, similar to a series of multiple regression equations. SEM (Structural Equation Modeling) is the most prominent technique of second generation data analysis used to measure the relationship between latent variables (Hair Jr et al., 2021). Random sampling technique was used with a sample size of 108 sales division employees according to predetermined criteria.

Data analysis in this research uses Partial Least Square (PLS). PLS can be used on any type of data scale (nominal, ordinal, interval, ratio) and assuming more flexible terms. PLS is also used to interconnect each indicator with the construct. A PLS path model consists of two elements. First there is a structural model (also called an inner model in the PLS-SEM context) that represents the construction (circle or oval). Structural models also display relationships (pathways) between constructs. Second, there is a measurement model (also referred to as an outer model in PLS-SEM) of the constructs that displays the relationships between constructs in indicator variables (Hair Jr et al., 2021).

RESULTS AND DISCUSSION

After distributing questionnaires to the automotive industry in Jakarta via the Google Form web questionnaire, a total of 108 respondents who responded to the questionnaire were declared suitable as subjects for data analysis, after data screening. Before proceeding to the PLS data analysis stage, this research describes the results of the respondent characteristics data based on the profile of each respondent. Describing the respondent's profile is very important as a reference for the respondent's involvement in making effective human resource management decisions. The following is a description of the respondent profiles in this research.

Table 1. Characteristics of Respondents

Respondent Profile		Amount	Percentage
Gender:			
Male		87	
Female		21	
	Total	108	
Age:			
18-24 years		23	
25-34 years		57	
35-44 years		20	
>45 years		8	
	Total	108	
Education:			
High School/Vocational High School		39	
Diploma		22	
Bachelor		41	
Masters		6	
	Total	108	

Source: Research data

From the data above, it shows that the male gender, with an age level between 25 to 34 years and a bachelor's education level, dominates every activity in the automotive industry. Because the characteristics of automotive companies require the skills of men more than women. Next, PLS data analysis was carried out.

Data analysis using PLS was carried out through measurement model evaluation and structural model evaluation. In evaluating the measurement model, it will be assessed through convergent validity, discriminant validity and reliability tests. Meanwhile, evaluation of the structural model is carried out through assessing VIF, R^2, Q^2, f^2, and path coefficients. The following is a description of the measurement model evaluation with each assessment.

Convergent validity assessment in measuring model evaluation refers to the criteria of (Hair et al., 2017), that every item that has Outer Loadings (OL > 0.70) can be said to have a valid and satisfactory level of validity. Conversely, items that produce an OL value <0.70 must be removed from the model, until the model is at a good assessment criteria level. The results of the first OL carried out in this study are shown in Figure 1, where the items CM_1, WD_2 and EP_2 according to the procedure must be removed from the model, because they have an OL <0.70.
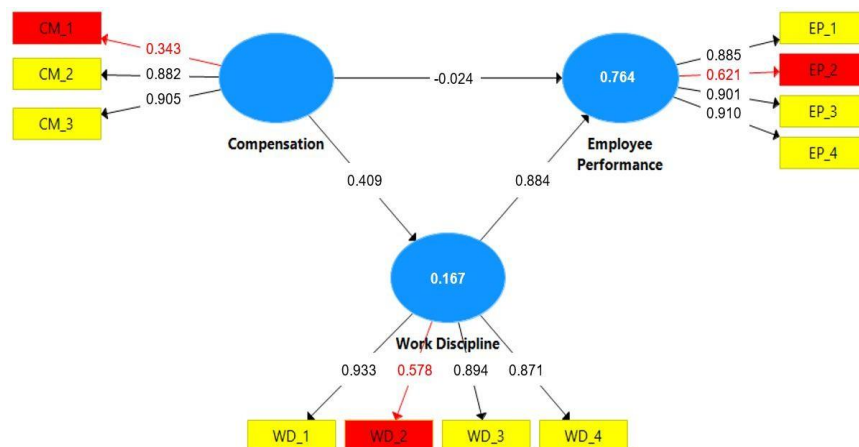

Figure 1. First Model of Outer Loadings
Source: SmartPLS Outputs

Meanwhile, the results of the OL modification shown in Figure 2 show that all items from each construct have met the discriminant validity assessment, because the items from the constructs of compensation, work discipline and employee performance are >0.70. The results of this research measurement model can be said to have produced a good level of measurement.
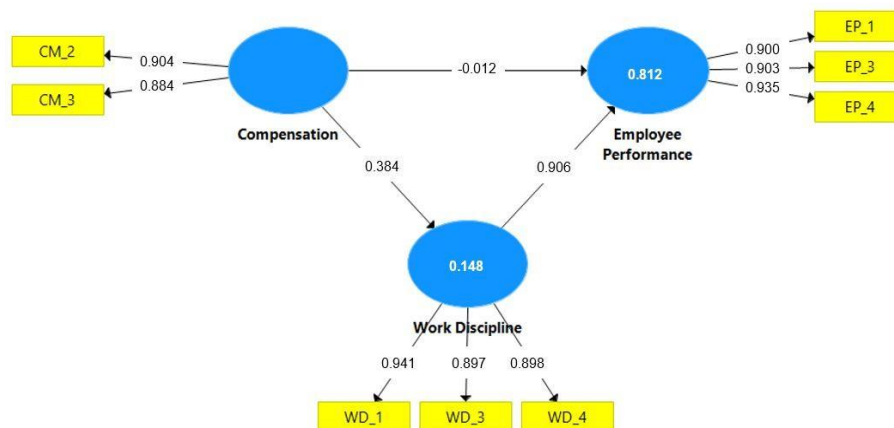

Figure 2. First Model of Outer Loadings
Source: SmartPLS Outputs

After assessing each item, it has obtained a good level of validity according to predetermined procedures. Next, the discriminant validity assessment aims to determine the

sensitivity of each item in measuring and reflecting the construct. The first validity assessment is Cross Loadings, Fornell-Larcker, and HTMT. Below are presented the results of discriminant validity in this study.

Table 2. Discriminant Validity Results

Constructs	CL			FL			HTMT		
	CM	WD	EP	CM	WD	EP	CM	WD	EP
CM:				0.894				0.465	0.406
CM_2	0.904	0.349	0.324						
CM_3	0.884	0.338	0.275						
WD:				0.384	0.912				1.000
WD_1	0.366	0.941	0.843						
WD_3	0.420	0.897	0.809						
WD_4	0.259	0.898	0.813						
EP:				0.336	0.901	0.913			
EP_1	0.313	0.860	0.900						
EP_2	0.259	0.766	0.903						
EP_3	0.345	0.836	0.935						

Information: CL = Cross Loadings, FL = Fornell-Larcker, HTMT = Heterotrait Monotrait Ratio, CM = Compensation, WD = Work Discipline, EP = Employee Performance

Source: SmartPLS Outputs

The discriminant validity results in Table 2 above show that the Cross Loadings assessment of all correlated construct items is higher than the correlation with other construct items. In addition, each construct item assessed using the Fornell-Larcker approach produces a higher correlation between constructs than the correlation of other constructs. Meanwhile, the HTMT assessment only correlates work discipline with employee performance where the correlation exceeds the threshold (>0.90). However, the overall assessment has been considered to meet the evaluation of discriminant validity, where each item in the model has the ability to reflect the construct well.

Lastly is reliability testing which aims to find out how reliable and consistent each item is in measuring the construct. Reliability is assessed using the Cronbach's Alpha approach > 0.70 and Composite Reliability >0.70 if you want more satisfactory results, because it will affect the Average Variance Extracted (AVE) value which must meet the criteria level above 0.50 (Hair et al., 2017). Reliability and AVE results are presented in Table 3 below.

Table 3. Reliability and AVE Results

Constructs	Cronbach's Alpha	Composite Reliability	AVE
Compensation	0.750	0.754	0.800
Work Discipline	0.899	0.937	0.832
Employee Performance	0.900	0.937	0.833

Source: SmartPLS Outputs

The results of reliability testing through Cronbach's Alpha, Composite Reliability, and AVE assessments are that all construct items are reliable and have diversity in measuring their constructs. This is because the Cronbach's Alpha and composite reliability values for all constructs are above 0.70 and AVE > 0.50, and are in accordance with the procedures used by (Hair et al., 2017).

After the outer model evaluation is fulfilled, the inner model evaluation is then carried out through VIF, R^2, Q_2 and f^2 assessments. VIF is carried out to determine the extent of the correlation between constructs with a VIF value < 5, while Q^2 functions whether the model has good predictions and f^2 aims to determine the extent to which the strength of each endogenous variable influences the exogenous variable (Sarstedt et al., 2017). The VIF, R^2, Q^2

and f^2 test results are presented in the table below.

Table 4. VIF, R^2, Q^2 and f^2 Results

Constructs	VIF	R^2	Q^2	f^2	
				WD	EP
Compensation	1.000		0.359	0.173	0.001
Work Discipline	1.173	0.148	0.625		3.722
Employee Performance	1.173	0.812	0.623		

Source: SmartPLS Outputs

Evaluation of the structural model from the VIF, R^2, Q^2 and f^2 assessment results shown in Table 4 above, shows that the VIF assessment results state that the construct has no correlation between other constructs. For the R^2 assessment, it shows that the work discipline value is 0.148, which means having weak abilities when explained by compensation, while the R^2 value of employee performance is 0.812, which means work discipline in explaining it is very strong. This is proven through the f^2 assessment, where the f^2 value of the relationship between compensation and work discipline is moderate (0.173), and the relationship between compensation and employee performance has no effect (0.001), while the relationship between work discipline and employee performance is very strong (3.722). Apart from that, this model has the ability to predict a good model that can be developed by further models, because all construct models have values above 0. Lastly is the path coefficient test which is presented in Figure 3 and Table 5 below.
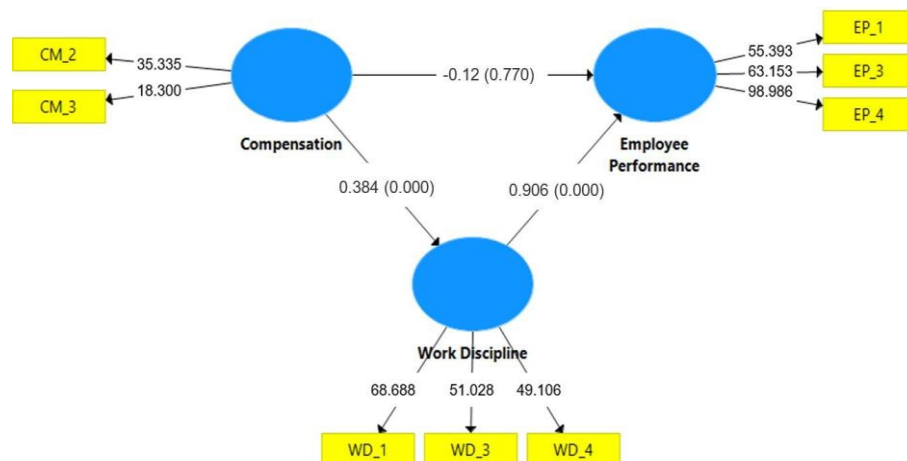

Figure 3. Structural Model Results
Source: SmartPLS Outputs

Table 5. Structural Model Results

Relationships	β	Accepted?
Compensation → Work Discipline	0.384***	H1, Yes
Compensation → Employee Performance	-0.012ns	H2, No
Work Discipline → Employee Performance	0.906***	H3, Yes
Work Discipline → Compensation x Employee Performance	0.348***	H4, No

Information: ns = insignificant, $p<0.10^*$, $p<0.05^{**}$, $p<0.01^{***}$

Source: SmartPLS Outputs

The results of the structural model of this research provide an understanding that compensation positively and significantly influences work discipline ($\beta = 0.384$; $p = 0.000 < 0.05$), H1 is accepted, but not employee performance ($\beta = -0.012$; p = 0.770 > 0.05), H2 is not accepted. Meanwhile, the results of H3 are accepted, ($\beta = 0.906$; $p = 0.000 < 0.05$) because

work discipline positively and significantly influences employee performance. In addition, the full mediation results obtained from the effect of compensation on employee performance through work discipline produced a positive and significant effect ($\beta = 0.348$; $p = 0.000 < 0.05$), H4 was accepted.

The first model built in this research, namely the influence of compensation on work discipline, is proven to answer the hypothesis that has been built. These results confirm that compensation has a positive and significant effect on work discipline (Hajiali et al., 2022; Wirya, 2019). This model conveys the meaning of how important it is for compensation to be carried out in accordance with the provisions and agreements between employees and organizational stakeholders in the automotive industry as an effort to improve employee work discipline. Providing timely salaries or incentives according to the size of the employee's position and rewards for employees who have good work behavior and performance are effective ways to measure compensation which leads to increased work discipline. The better employee work discipline will be seen from each of their activities in maximizing the level of punctuality of work, compliance with all organizational regulations, and having more responsibility in carrying out and completing their tasks.

In contrast to the findings of the second hypothesis model in this research, it shows that compensation produces an insignificant negative effect in influencing employee performance. However, this finding is confirmed by previous research that compensation negatively and does not significantly influence employee performance (Idris et al., 2020; Rinny et al., 2020). So, in the practice of the automotive industry, it is revealed that compensation is not a factor that makes stakeholders an important thing that becomes the focus of attention in improving employee performance. Finally, aspects that build compensation such as: timely salaries or incentives according to the employee's position and rewards for work performance produced are not considered aspects that can improve employee performance, such as: productivity, profitability and employee abilities.

Meanwhile, the third hypothesis model is proven to be acceptable, namely that work discipline has a positive and significant effect on employee performance. These results are confirmed by previous research, revealing that work discipline has a positive and significant effect on employee performance (Azmy et al., 2022; Sitopu et al., 2021; Mochamad Soelton, 2018). This means that when an automotive company wants to improve employee performance, it is very important to pay attention to work discipline, such as: punctuality of work, compliance with all regulations and responsibilities. This will certainly form better employee work attitudes and behavior, such as: increased productivity, resulting in higher profitability, and increased employee ability to complete tasks, which leads to increased employee performance.

The final model of this research proves the occurrence of a "full mediation" mechanism from the three results of the relationship model that has been explained, namely that work discipline plays an important role in mediating the relationship between compensation and employee performance, which is confirmed to have a positive and significant effect. In particular, this result has been proven to be revealed by previous research (Agustina et al., 2023), that there is a strong relationship when work discipline is pinned as a mediator between providing incentives and employee performance. As a result of the relationship between compensation and performance that cannot be justified, it turns out that the cause is the dire need for work discipline to intervene in this relationship. It has been proven that this model is very strong as a basis for implementing strategic decision making for automotive industry stakeholders.

CONCLUSION

The focus of this research is to discuss how work discipline acts as a mediator between compensation and employee performance and succeeded in empirically proving to produce a

full mediation relationship. This is because compensation does not significantly influence performance, but significantly influences work discipline, and work discipline significantly influences employee performance. A model with very robust mechanisms has been generated in this study. This means how important work discipline is as a mediator between compensation and performance.

In the context of automotive industry behavior, the implementation of this model is the key to its success. The best way to allocate salaries or incentives on time according to employee positions and rewards for achievements that have been produced, where the consequences received are: increased productivity, higher profitability, and increased employee abilities is to cultivate a culture of punctuality, compliance with every regulation and responsibility for every task and job. This concept means that aspects of work discipline that act as mediators are very important when aspects of compensation are connected to aspects of employee performance.

However, there are drawbacks to this research model, such as the research population was conducted at the regional level and is cross-sectional. Apart from that, not all divisions in the automotive industry are involved and participate as data in this research, so the interpretation is not optimal, but the model is still acceptable and worthy of development, because the Q^2 statistical results are at the level of good test criteria. Finally, this research makes an important contribution as additional knowledge in the context of reliable human resource management, and suggestions that need to be made are adapting the research model even to other industries, expanding the population or involvement of all divisions, and adding parameters from each construct to produce a model more comprehensive.

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