

## **The Effect of Compensation, Leadership and Work Environment on Job Satisfaction and Employee Performance at Food and Beverage Industry in Makassar Industrial Area**

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**Abstract:** *This aimed to investigate the effect of compensation, leadership and work environment on job satisfaction and employee performance at food and beverage industry in Makassar industrial area. This also explored the effect of job satisfaction on employee performance. Data was collected through observation and questionnaires. While data analysis applied Structural Equation Modeling (SEM). Therefore, this study indicated that compensation had a significant effect on job satisfaction; that leadership had a significant effect on employees' job satisfaction, and that work environment had a significant effect on employees' job satisfaction. Moreover, leadership had a significant effect on employee performance; work environment had a significant effect on employee performance; and job satisfaction had a significant effect on employee performance at the food and beverage industry within Makassar industrial area.*

**Keywords:** *compensation, leadership, work environment, job satisfaction and employee performance*

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### **I. Introduction**

Economic development has been considered as an important pillar for Indonesian development process. One of sectors that plays a role in Indonesian economic development is the industrial sector that can contribute for its national development. Therefore, qualified human resources need to be developed to support Indonesian industries advancement. Referring to Ardana, et al (2012:1), human resources are the most valuable and essential asset for a company since a human being acts as a planner, implementer, and controller of a company goal. Otherwise, no company runs its business without human resources who are able to measure a company's success.

The success of a company can be greatly influenced by its human resources. Each employee carries out daily duties and activities to achieve the company's predetermined goals. Thus, the employees' job satisfaction are required to influence their working performance in the office. According to Widodo (2015: 171), an employee's job satisfaction can be relatively satisfied with an aspect of work. By understanding an employee's productivity can indicate his or her job performance. In other words, the increasing job satisfaction leads for the employee's higher working performance.

For manufacturing companies, employees' job satisfaction and performance are also essential. As the previous arguments, high employees' job satisfaction can be followed by the growth of employees' performance. Widodo (2015:153) argues that employees definitely need adequate, fair, and competitive compensation or reward in order to influence their work enthusiasm and productivity. In brief, good compensation may elevate employee's motivation and potency. Nevertheless, the appreciations or rewards are generally given by the employers due to the employees' better work and more productive performance (Widodo, 2015: 153). So, compensation is argued affecting one's job satisfaction as the previous research findings by Purnami et.al. (2014) and Supiyanto (2015). Moreover, issues on compensation are not only affecting job satisfaction, but also employees' performance. Supiyanto (2015) found that there was a significant influence of compensation towards employee performance. Then, Wijaya and Andreani (2015) found that compensation had a positive and significant effect on employee performance.

In addition, leadership can be determined as a factor to increase workers' job satisfaction and performance in a company. Leadership is an essential part of an organization so it can lead for the success or the failure of a company. In particular, a leader has an important position within an organization or a company and involves responsibilities to implement specific duties (Thoah, 2012:1). The leaders also have great influence to decide organizational goals, to maintain behavior of staff, and to motivate staff in order to accomplish the company's objectives, (Rivai & Mulyadi, 2013:3). Likewise, a previous research found that there was a positive

and significant influence between leadership on job satisfaction (Hidayat, 2013). Rumawus (2015) indicated that leadership had a significant effect on job satisfaction. So leadership can increase job satisfaction and give an impact on employee performance. Besides, Wiranata (2011) argued that that leadership influenced employee performance. Then, Muizu (2014) showed a hypothesis testing result that leadership had a significant effect on employee performance.

The work environment is a very important for employees; and this can be seen through their work activities. Creating a good work environment can provide higher motivation to work; meaning that work motivation influence employees' working excitement or enthusiasm (Sunnyoto, 2012: 43). A research by Widodo et al. (2014) showed that physical and non-physical work environments had a significant effect on job satisfaction. Similarly, Rizal (2015) and Zuriani, et.al (2014) concluded that work environment has a significant effect on job satisfaction. Moreover, the hypothesis testing result of Sofyan (2013) indicated that work environment affected employee performance. So, work environment can influence both job satisfaction and job performance.

This study intended to examine the effect of compensation, leadership and work environment on job satisfaction and employee performance at food and beverage industry. The objects of this study were manufacturing companies in which registered in an industrial estate in Makassar. They were selected in accordance with BPS data of South Sulawesi province. Based on the report, the industrial production in large and medium-sized quarter II 2016 had increased by 3.33% compared to the first quarter of 2016 (BPS of South Sulawesi Province). However, the report on second quarter of 2016 indicated that the numbers of large and medium manufacturing industry and the micro and small manufacturing industry (IMK), especially food industry, declined. Thus, this study intended to understand factors of decreasing industries in terms of compensation, job satisfaction, and employee performance at food and beverage industry in Makassar industrial area.

## **II. Literature Review**

### **Compensation**

Compensation is a part of human resource management. It relates to all types of rectification as the result of task accomplishment in the workplace. Compensation can be said as main reason for people to work. According to Ardana (2012:153), compensation includes all things that are received by employees as a reward for their work. It derives all costs for an employee's expertise, work, and loyalty for a company within this 21<sup>st</sup> century. Clearly, compensation can be in the form of salary or wages.

Otherwise, compensation can be both financial and non-financial coverages. It can support an organization or a company achieving its success by considering its internal justice and external justice. The internal justice is basically applied to employees who have higher qualifications for higher positions and vice versa. While, the external justice refers to employees who are paid as similar as other employees in other companies. In brief, compensation arrangements are essential to attract and maintain employees in relevance to a company's interest or concern.

### **Leadership**

Leadership addresses behavior and activity to influence others to accomplish a job. It is also seen as a process of which someone persuade other people to achieve a predetermined goal. So, a leader plays a leadership process based on his or her beliefs, values, ethics, character, knowledge and skills. Furthermore, a good leader is one who can use his or her power to direct and control employees for doing what to do. This leader can develop himself or herself through a never-ending learning process, education, training, and working experience. So, good leaders are created, but was not born. In contrast, bossy leaders prevail employees only to serve them, to look good, and use their authority to get a promotion.

Moreover, effective leadership is adjusted from desires and expectations. Sedarmayanti (2016:273) argues that leadership is a process to formulate and achieve goals by directing group activities. Meanwhile, Thoha (2012: 121) draws leadership as an activity to influence others' behavior following what goals need to be achieved. So the leadership begins when a person tends to persuade others.

### **Work Environment**

Work environment is valuable for the success of a company in increasing its labor productivity. It is out of human factors within an organization or a company, including both physical and non-physical factors (Sihombing, 2014:27). The physical factors are for example work equipment, temperature in the workplace, distress, density, noise, and workspace area. Meanwhile, non-physical factor includes work relationships between superiors and subordinates and between fellow employees. Accordingly, Tohardi (2012:130) argued that work environment needs to be constructed in terms of physical workspace and human resources within a company. Moreover, work environment is around workers who can persuade themselves in completing their

assigned tasks (NitiseMITO, 2011: 99). So, the work environment is a determining factor for what a company must do to succeed; and it leads the company to carry out its perceived activities for success.

### **Job Satisfaction**

Job satisfaction is necessary for employees in the workplace. Every employee must have different characteristics, so his or her level of job satisfaction also varies. The higher or lower level of job satisfaction also has distinctive impacts on each employee. According to Roe and Byars (2011:08), the differences depend on each employee's attitude and mentality. The higher level of employee's job satisfaction will advance the realization of company goals effectively. On the other hand, the lower level of job satisfaction can lead for a company's destruction. In the workplace, employees may like and dislike their jobs (Werthet & Davis, 2012:135). Their job satisfaction can be viewed as a general attitude towards their works (Robbins, 2013). In particular, George and Jones (2012:101) define job satisfaction as an attitude towards their services. Similarly, Gibson, et.al(2010) argues that job satisfaction is a set of feelings, beliefs, thought about how employees respond to their work. Shortly, employees may have different perspectives on job satisfaction.

### **Employee Performance**

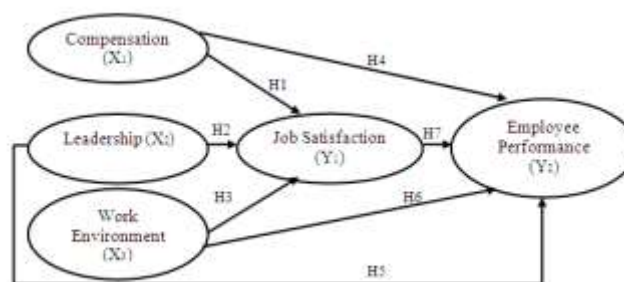
Performance demonstrates one's ability to accomplish their duties at work. It exposures employees' results in completing tasks and jobs of a company (Priansa, 2014:269). Performance can be defined as a combination of motivation and ability to actualize current jobs (Wibowo, 2011:47) and to realize company goals. Similarly, Judge (2014:3) illustrates a performance as the achievement level of activity programs or policies in realizing the company's goals, objectives, vision and mission based on the strategic plans. Moreover, the performance management includes the whole activity to improve a company's appearance, including individual and collective company performance. The individual performance, group performance, and company performance are influenced by many internal and external factors within its organization.

### **Research Hypotheses**

This study formulated seven research hypotheses to clarify the objectives of this study that are explained below:

1. Compensation has an effect on job satisfaction.
2. Leadership has an effect on job satisfaction.
3. Work environment has an effect on job satisfaction.
4. Compensation has an effect on employee performance.
5. Leadership has an effect employee performance.
6. Work environment has an effect on employee performance.
7. Job satisfaction has an effect on employee performance

The relationships between those variables are presented into a conceptual framework in Figure 1 below:



**Figure 1**  
Conceptual Framework

### **III. Research Method**

In this study, a qualitative inquiry was applied to collect data through observation and questionnaire. The first technique included a direct observation to office activities in the observed manufacturing company in Makassar industrial area. Meanwhile, the questionnaire technique was conducted by distributing questionnaires to employees working at food and beverage industry in Makassar industrial area.

In this study, there were two types of data sources. The first is primary data. This was obtained through direct observation to company activities and interviews to employees in the investigated companies. The second is secondary data. This was obtained from various information or data, for example: the numbers of employees,

the company's income, and other data that can support this study. A research method used Structural Equation Modeling (SEM) model for data analysis.

#### IV. Result

Prior the next analysis, the assumptions were tested to ensure that a structural model could be used. Accordingly, the hypothesis testing about variables that were produced from the AMOS software could be explained as the following figure:

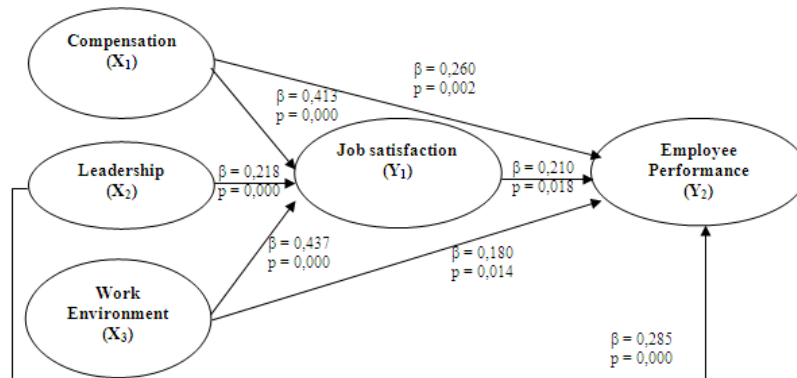


Figure3. Path Coefficient and Significance

Furthermore, the calculation results for the impact of coefficient and significant test of each path could be explained into three results. Firstly, the compensation had an effect on job satisfaction; and job satisfaction also affected employee performance. In turn, the compensation directly affected the employee performance. Thus, the compensation affected the performance of employees both directly and indirectly through mediation of job satisfaction. In other words, the job satisfaction partially mediated the effect of compensation on employee performance. This result implicated that the improvement of employee performance could be derived from the advancement of compensation (the impact of 0.260). The employee performance development was also supported by the employees' job satisfaction growth. Then, the effect of compensation on employee performance would be greater than the coefficients of 0.347.

Secondly, influential leadership on job satisfaction, and job satisfaction also affected employee performance. Meanwhile, direct leadership turned out to also affect employee performance. Thus, leadership could directly and indirectly affect employee performance through mediation of job satisfaction, so the job satisfaction partially mediated the influence of leadership to employee performance. The implication of this study, employee performance could be improved through leadership development (the coefficient of influence of 0.285). The employees' increasing job satisfaction could also influence the higher degree of leadership of employee performance as the result of coefficient to 0.331 value.

Thirdly, the work environment affected job satisfaction that, in turn, affected employee performance. The work environment could directly and indirectly affect employee performance through the mediation of job satisfaction. So, this study concluded that job satisfaction partially mediated the influence of work environment to employee performance. This result provides an implication that employee performance can be elevated by developing work environment (the effect of 0.180). If this is mediated with the increasing job satisfaction, the impact of work environment on employee performance will be greater as the coefficient value of 0.272.

#### V. Discussions

##### The Effect of Compensation on Job Satisfaction

In this study, the compensation for job satisfaction showed significant results with a CR value of 5.191 (greater than 1.96) and a significant level (p-value) of 0.000 (less than 5%). The effect of coefficient product was indicated equal to 0.413 (positive). In other words, the higher compensation meant the higher job satisfaction. Accordingly, the first hypothesis was accepted that the compensation had a significant effect on job satisfaction of employees at the food and beverage industry in the Makassar industrial area.

### **The effect Leadership on Job Satisfaction**

In this study, the testing result of leadership towards job satisfaction indicated significance with a CR value of 3.403 (greater than 1.96) and also significance (p-value) on 0.000 (less than 5%). The effect coefficient was 0.218 (positive), meaning that the better the leadership, the higher job satisfaction would be. Thus, the second hypothesis evidenced that the leadership had a significant effect on job satisfaction on employees.

### **The Effect of Work Environment on Job Satisfaction**

In this study, the work environment for job satisfaction was found significant with a CR value of 6.111 (greater than 1.96) and its level was significant (p-value) of 0.000 (less than 5%). Moreover, the effect coefficient was equal to 0.437 (positive); the better work environment meant higher job satisfaction. Thus, the third hypothesis arguing the work environment had a significant effect on job satisfaction was accepted.

The compensation showed significant results for employee performance with a CR value of 3.061 (greater than 1.96) and a significance level (p-value) of 0.002 (smaller than 5%). The effect coefficient was equal to 0.260 (positive). This meant that the higher compensation affected the higher employee's performance. Thus, the fourth hypothesis stated that compensation had a significant effect on the performance of employees at the food and beverage industry in the Makassar industrial area.

Leadership on employee performance also demonstrated significant results with a CR value of 4.088 (greater than 1.96) and a significance level (p-value) of 0.000 (less than 5%). The effect coefficient was 0.285 (positive). Similarly, the better leadership meant the higher employee's performance. Thus, the fifth hypothesis stated that leadership had a significant effect on the employee performance at the food and beverage industry in the Makassar industrial area.

This study found that the work environment on employee performance showed significant results with a CR value of 2.464 (greater than 1.96) and a significance level (p-value) of 0.014 (smaller than 5%). The effect coefficient was equal to 0.180 (positive), so the better work environment addressed the higher employee's performance. Furthermore, the sixth hypothesis evidenced that the work environment had a significant effect on the performance of employees at the food and beverage industry in the Makassar industrial area.

In this study, the job satisfaction on employee performance was identified significant with a CR value of 2.359 (greater than 1.96) and a significance level (p-value) of 0.018 (smaller than 5%). The effect coefficient was equal to 0.210 (positive), meaning that the higher job satisfaction led to the higher employee's performance. Thus, the seventh hypothesis presented that job satisfaction had a significant effect on the employees' performance at the food and beverage industry in the Makassar industrial area.

## **VI. Conclusion and Suggestion**

The phenomenon of this study prevailed relationships of compensation, leadership, work environment, job satisfaction, and employee performance at food and beverage industry in Makassar industrial area. This study concerned on the declining company performance due to the low salary. Therefore, the employees had low level of job satisfaction and other factors. However, this study concluded seven results in response to current problems at food and beverage industry in Makassar industrial area.

The first result indicated that the company's compensation had a significant effect on job satisfaction so H1 was accepted. The second result showed that leadership had a significant effect on job satisfaction; meaning that H2 was accepted. The third result found that the work environment had a significant effect on job satisfaction, so H3 was accepted. The fourth result proved that compensation had a significant effect on the performance of employees, so H4 was accepted. Moreover, the fifth result showed that leadership had a significant effect on the performance of employees, so H5 was accepted. The sixth indicated that the work environment had a significant effect on the performance of employees, so H6 was accepted. The last result, job satisfaction had a significant impact on the performance of employees at food and beverage industry in Makassar industrial area, so H7 was also accepted.

Furthermore, this study recommended two suggestions for further research improvement. For researchers in the field of human resource management, this study can be developed by adding other variables, e.g. wages, salaries, or another relevant variable. While for owners of beverage and food companies in Makassar, this study suggested to maintain the quality of their production through empowering employees with relevant fields of expertise.

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