

## THE MEDIATING ROLE OF MOTIVATION BETWEEN REMUNERATION AND PERFORMANCE

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### ABSTRACT

**Purpose-** This research aims to examine the remuneration effect on performance using motivation as the mediating variable.

**Design/methodology/approach-** The population of the research is all educational staff who work in one of public education institutions in Malang which have been applied remuneration system. Sample selection was conducted through a stratified random sampling technique. This study used a structured questionnaire to collect data and Pearson correlation and regression models were used to analyze data.

**Findings-** The results showed that remuneration had a significant effect on motivation and employee performance, and there was a significant effect of motivation in mediating the remuneration effect on employee performance. This study recommends the need for more attention to motivation because of its essential role in improving employee performance

**Implication-** The significant motivation role in improving employee performance is expected to be a concern for leaders to encourage employees in carrying out and completing their work rather than merely focused on remuneration itself. The goal is not only for individual purposes but also for the benefit of the organization.

**Keywords:** *Employee Performance, Motivation, Remuneration*



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# THE MEDIATING ROLE OF MOTIVATION BETWEEN REMUNERATION AND PERFORMANCE

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## Abstrak

**Tujuan-** Penelitian ini bertujuan untuk menguji pengaruh remunerasi terhadap kinerja dengan menggunakan motivasi sebagai variabel mediasi.

**Desain/metode/pendekatan-** Populasi dari penelitian ini adalah seluruh stafke pendidikan yang bekerja di salah satu perguruan tinggi negeri di Malang yang telah menerapkan sistem remunerasi. Pemilihan sampel dilakukan dengan menggunakan teknik *stratified random sampling*. Penelitian ini menggunakan kuesioner terstruktur untuk mengumpulkan data serta korelasi Pearson dan regresi digunakan untuk menganalisis data.

**Temuan-** Hasil penelitian menunjukkan bahwa remunerasi secara signifikan berpengaruh terhadap motivasi dan kinerja pegawai, serta adanya pengaruh motivasi yang signifikan dalam memediasi pengaruh remunerasi terhadap kinerja pegawai.

**Implikasi-** Peran vital motivasi dalam meningkatkan kinerja pegawai diharapkan dapat menjadi perhatian khusus bagi pimpinan untuk dapat mendorong pegawai dalam kaitannya mengerjakan dan menyelesaikan pekerjaan daripada hanya sekedar fokus pada sistem remunerasi.

**Kata kunci:** Remunerasi, Motivasi, Kinerja Pegawai

## 1. Introduction

The organization's achievement of objectives requires a strategy to improve performance. Unfortunately, there are limited the organization number to consider human resources as major assets that leads the organization into success. If someone in the organization is not satisfied with their job and is not motivated to fulfill the duties and goals, the organization will not achieve success (Dobre, 2013).

Individual performance is the starting point for successful organizational performance achievement and becomes important for organizations to improve individual performance. An organization can take many ways to improve individual performance. One of the important things is providing adequate rewards to employees, which is a major component of human resources in an organization (Dulebohn and Werling, 2007).

The public sector in Indonesia seeks to improve employee performance by rewarding that can boost performance through a remuneration system. Thus, it also occurs in higher education institutions. Remuneration provision as rewards for educational staff in the higher education area functions as an independent form that also intends to improve motivation and performance (Prasetya&Pratama, 2017). Through this scheme, educational staff in the tertiary institution expected to develop into a professional, competent, and accountable manner in supporting the realization of good and clean higher education governance.

The remuneration system delivers benefits for the organization. Remuneration aims to stimulate employees to give work motivation so that it is expected to support better and maximum performance. Cahyanugroho et al. (2016) found that remuneration significantly influences motivation. Remuneration also aims to improve performance. Academic research showed a relation between remuneration and performance. Anthony and Govindarajan (2013) stated that one way to improve performance is by providing an incentive that was viewed as important to stimulate employee performance. Incentive schemes can be in the form of awards, salaries, bonuses, and remuneration. Sutrisno (2012) also supported this statement by arguing that organizations need to provide an adequate work environment through incentive policies or rewards on work achievement shown by employees. Income is an essential mechanism for accumulating efforts, rewarding productivity, and ensure compliance through owner interests (Doucouliagos et al., 2007).

Nevertheless, academic research has shown exciting results in looking for the relationship between remuneration and performance. Various research results found by researchers indicated it. Muogbo (2013) found results in line with the justice theory that remuneration provision has a significant effect on employee performance. Similar results were also found by Gustika (2013), Baba (2015), Munyua (2015), Cahyanugroho et al., (2016), Calvin (2017), and Alfian&Pratama (2017) regarding the existence of the significant effect of remuneration to employee performance. On the other hand, some researchers have given different results by showing that remuneration has no significant effect on performance. These results were found in Purwani (2009), Hameed et al., (2014), and Rizal et al., (2014).

This research results diversity is assumed due to the existence of indirect effect factor of remuneration on performance through motivation. Therefore, the remuneration given is thought to be able to motivate employees to do their work more optimally to improve better performance. Wilfred (2014) also added that effective and interesting remuneration could retain and motivate employees to result in better performance.

Based on these reasons, this research adapted from a previous model that used the direct effect of remuneration on performance (Ojeleye, 2017; Alfian&Pratama, 2017; Teja, 2017; Wilfred; 2014; Munyua, 2015; Muogbo, 2013), remuneration on motivation (Davis, JQ & Singh, 2011; Singh et al, 2015; Fonseka, 2019), and motivation on performance (Nduka, 2016; Trskova, 2016; Barkley, 2017; Mahmud et al, 2018). This research used the motivation variable as a mediator of the remuneration effect on performance. Motivation is used in research due to motivation provides strength that can encourage individuals to behave in achieving goals (Rivai et al., 2014). Siagian (2016) added that with the right motivation, employees would be motivated to do their best to carry out their duties because they believe that with the institution's success in achieving its objectives, the personal interests of the institution employees will also be preserved. It is what is new in this research where it is expected that the results will provide a firm answer to the remuneration role in an organization. Besides, this research used a different measurement from most research in the field of remuneration because the background of this study is related to the remuneration implementation in public organizations. Motivation measurement in this study is also not only related to compensation and incentives but more to the inner character that acts as a driver in behavior.

Another reason for conducting this research is that remuneration is currently a phenomenon that continues to be a topic of discussion among employees in organizations that apply a remuneration system, especially the public sector in Indonesia, including at Malang State Polytechnic. Like the remuneration implementation at universities and other institutions

in Indonesia, remuneration was initially welcomed because it was considered to provide better welfare. However, it was found that the remuneration was not as expected, or in other words, it was not able to provide a better motivation to improve optimal performance along the way. Thus, the topic of remuneration is still interesting for further research.

## **2. Literature review**

Some theory was used as a source or reference in explaining the relationship between variables and underlying this research framework. Theories used include equity theory, incentive theory, and expectancy theory. The use of these theories aims to strengthen the hypotheses formulation built in this study.

Equity theory confirms the relationship between remuneration and individuals who are paid. Employees will compare the ratio between their input (how much effort is given) and their output (how much is paid), and they then try to compare that ratio with other individuals. Equity theory suggests that the results of these comparisons will affect individual responses, whether to increase or decrease their performance efforts, to reconstruct equity (Adams, 1963; Miller, 1995 in Bender, 2003). Equity theory is a theory based on the perception of individual justice. This theory is seen to explain how beliefs, perceptions, and attitudes will influence motivation. Employees have a strong motivation to improve situations when injustice over performance evaluation is considered to be present (Muogbo, 2013). This theory will explain the relationship between remuneration and motivation.

A remuneration is a form of compensation given to employees for the work results that have been done. Remuneration is a reward given to the employees as a result of the achievements that have been given for achieving organizational goals (Sopiah, 2008). Remuneration is seen as a factor affecting motivation. Motivation is interpreted as the presence of individual factors that can influence desire and strength (De Cooman et al., 2011). Remuneration can be used as a managerial tool to motivate employees.

Fonseka (2019), in his research, found that remuneration and motivation are dependent on implementation. Research conducted by examining the various elements that constituent remuneration indicated that increased remuneration would also improve motivation. It can be concluded that remuneration give a positive effect on motivation. Singh et al. (2015) found something similar in their research that fair remuneration provision can improve work motivation. The research result concluded that the correct compensation given would make will make employees more satisfied and motivated in achieving organizational goals. Based on this description, the research hypothesis is formulated as follows:

### **H1: Remuneration has a significant effect on motivation**

Remuneration in various studies also has been found to have a positive effect on performance. The effect of remuneration on performance can be explained by the incentive theory, which describes that employees' income can improve employee performance and organizational performance (Anthony & Govindarajan, 2013). This theory explains that the incentives provided will encourage ways of behaving. The incentive is an award in the form of money given by the leader to employees to deliver high motivation and achievement in achieving organizational goals or in other words, incentives are also giving money outside the salary made by the leader of the organization in recognition of work performance and employee contributions to the organization (Mangkunegara, 2017). Remuneration can provide each employee with more income so that employees can concentrate more on work.

Wilfred et al. (2014) proved that remuneration provision, according to their level and capability, can encourage employee performance improvement. When employees are given a larger workload and get an appreciation for their work, employees will feel appreciated for the efforts that have been made to spur better performance. Similar results were also found by Ojeleye (2017), who concluded that remuneration is the main source of motivation for employee performance. It can be applied if the remuneration is given competitively and fairly to encourage employees' active participation in devoting their efforts in carrying out their work. Munyua (2015) found in his research that policies and forms of remuneration are key factors in enhancing the performance of employees because their implementation is carried out fairly and supportively for employees. From this description, the following research hypothesis is formulated:

**H2: Remuneration has a significant effect on employee performance**

Expectancy theory was used to explain the following hypothesis. Vroom (1964) stated that the expectancy theory outlines the relationship that exists between motivation and performance. This theory involved perception to emphasize cognitive abilities in anticipating possible behavioral consequences (Kreitner&Kinicki, 2008). Expectancy theory has two main assumptions, namely (1) the assumption that individuals have a perception of the consequences that will result from an action on their behavior, and the existence of causal relations among the consequences of these results. This perception (belief) is known as hope. (2) the assumption that individuals will react to certain results that reflect a positive or negative value of the resulting outcome. Motivation plays an essential role in the organizational environment to influence employee performance (Davis, JQ, and Singh, 2011).

The relationship nature between motivation and employee performance is in a straight line, which means that the more motivated employees are at work, the more effective they will be at work (Barkley, 2017). According to Trskova (2016), organizations that want better performance through their employees should focus more on the effectiveness of the motivational system because only employees who have high motivation can achieve better performance. Rapsanjani& Johannes (2019) found that motivation give a positive effect on the performance of the employee. Research results by Mahmud et al. (2018) also showed that motivation has a significant effect on performance. Effective motivation can positively encourage employees in committing to their work. In other words, employees who have high motivation to work will try to give their best efforts to do their works so that it will improve employee performance and organizational performance in the end. In line with this description, the research hypothesis is formulated as follows:

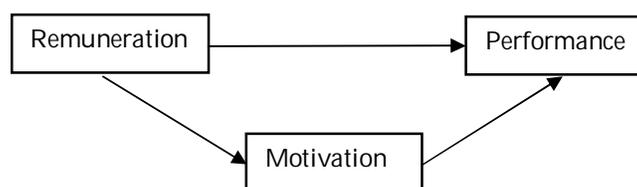
**H3: Motivation has a significant effect on employee performance**

In line with the incentive theory, expectancy theory, and equity theory in achieving its goals, organizations should implement effective human resource policies. The method that can be done is by giving an award to employees, namely by giving fair and appropriate remuneration. Remuneration aims to stimulate employees to be more motivated in doing their work so that it is expected that it can encourage better and maximum performance. However, research in remuneration and performance showed an interesting result. There is still a different result indicated that the existence of another factor toward remuneration and performance. It is assumed that motivation exists to mediate the relationship between remuneration and performance.

According to Robbins & Judge (2017), motivation is a process that describes a person's strength, direction, and persistence to achieve goals. Strength describes the person's hardness in trying, which needs to be channeled in the correct direction to provide benefits to the organization. Individuals who are motivated will be able to survive in their duties to achieve goals. Teja's (2017) research results were found that the compensation given correctly will be more satisfying and motivate employees in their efforts to help meet the organization's goals. The organizational objective achievement means that employees give a good performance as an implication of higher motivation. This description forms the hypothesis formulation as follows:

**H4: Remuneration has a significant effect on performance mediated by motivation**

Figure 1 showed the research model. Using motivation as a mediating role towards remuneration and performance, this research derived four hypotheses to capture the phenomenon of remuneration in a public institution.



**Figure 1. Research Model**

### **3. Methods**

#### **Sample and Procedure**

The population in this research is all administrative staff who work in PoliteknikNegeri Malang which has been applied remuneration system for about four years. The sample was taken through a stratified random sampling technique. Based on the results of calculations using the Slovin formula and distributed proportionally, the sample to be studied was 61 administrative staff.

#### **Operational Definition and Variable Measurement**

The research instrument used in this study was a questionnaire. The assessment scale item is arranged based on a Likert scale. The scores used were 1-5 which were varied according to the question category with the answer score (strongly disagree to strongly agree). The following is an operational definition and measurement of each variable:

Remuneration, defined as everything that is given by the organization as a form of reward for the work that has been done by employees. The remuneration variable is measured using a questionnaire developed by Suryani (2016). The indicators of remuneration are merit system, fair, worth it, competitive and transparent. Motivation is defined as encouragement or reason that becomes the basis of enthusiasm for taking an action to achieve certain goals. Measurement of motivation variables used a questionnaire developed by McClelland (1953) in Mangkunegara (2005). The indicators used are high responsibility, considering risks, creative and innovative, expect feedback, time to complete the task, and the desire to be the best

Employee performance, defined as work results obtained by a person or group of people in an organization to attain the expected goals. Indicators for measuring performance variables use the attributes used by Mangkunegara (2005), which consists of work quality, work quantity, reliability, and attitude.

The instruments utilized in this study have been tested for validity and reliability. The validity test using the Pearson correlation concludes that all items in the questionnaire are valid. While the reliability test shows that all items have a Cronbach alpha value of more than 0.7 which means that it is reliable.

### **Hypothesis Testing**

The hypotheses in this research are tested using regression analysis. The mediating effect is examined through the Sobel test. Sobel test is conducted through testing the strength of the indirect effect of the independent variable on the dependent variable through the mediating variable. This test begins with calculating the standard error of the indirect effect coefficient, then calculating the t value of the regression coefficient to test the significance of the indirect effect. If the t value is greater than the t table, it can be concluded that the mediation coefficient is significant, which means that there is a mediating effect.

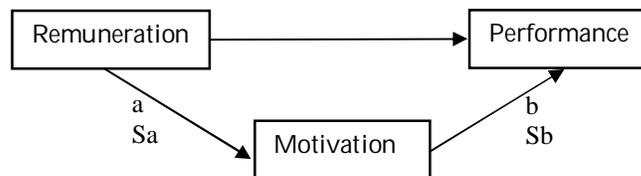
## **4. Results and Discussion**

Before conducting the regression analysis of the research hypothesis, the research conducted a classic assumption test on the data. The result showed that the data in this study are normally distributed, no autocorrelation occurs and there is no heteroscedasticity in the regression pattern. The T-test is used to determine whether each independent variable has a significant effect on the dependent variable. The t-test between remuneration and motivation shows t count = 6.207, t table ( $\alpha = 0.00$ ; residual df = 59) is 2.001. Because t count > t table is  $6.207 > 2,001$  or sig t (0,000)  $< \alpha = 0.05$ , the effect of the Remuneration variable on motivation is significant. It can be concluded that H1 is accepted and it means that remuneration has a significant effect on motivation or by increasing remuneration, motivation will show a significant increase.

The t-test between remuneration and employee performance shows t count = 6.347, t table ( $\alpha = 0.00$ ; residual df = 59) is 2.001. Because t count > t table is  $6.347 > 2.001$  or sig t (0.000)  $< \alpha = 0.05$ , the effect of the remuneration variable on employee performance is significant. The conclusion is H2 is accepted and a decision can be made that remuneration has a significant effect on employee performance. Thus, it can be said that by increasing remuneration, employee performance will show a significant increase. Hypotheses testing between motivation and employee performance shows t count = 13.232, t table ( $\alpha = 0.00$ ; residual df = 59) is 2.001. Because t count > t table is  $13,232 > 2,001$  or sig t (0,000)  $< \alpha = 0.05$ , the influence of the motivation variable on employee performance is significant. The conclusion that can be drawn is that H3 is accepted and it means that motivation has a significant effect on employee performance or by increasing motivation, employee performance will show a significant increase.

**Table 1**  
**Hypothesis Testing Results**

Effect	t-Statistics	t-Table	Ha
Remuneration → Motivation	6,207	2,001	supported
Remuneration → Performance	6,347	2,001	supported
Motivation → Performance	13,232	2,001	supported



**Figure 2**  
**Mediation Analysis through Sobel Test**

The first step in the sobel test is calculating error standards ab ( $S_{ab}$ ) in the following way:

$$S_{ab} = \sqrt{b^2 S_a^2 + a^2 S_b^2 + S_a^2 S_b^2}$$

Where:

a : Coefficient of remuneration regression on motivation = 0.846

b : Coefficient of motivation regression on performance = 0.735

Sa : Standard error of coefficient a = 0.136

Sb : Standard error of coefficient b = 0.056

$$\begin{aligned} S_{ab} &= \sqrt{b^2 S_a^2 + a^2 S_b^2 + S_a^2 S_b^2} \\ &= \sqrt{0.735^2 \cdot 0.136^2 + 0.846^2 \cdot 0.056^2 + 0.136^2 \cdot 0.056^2} \\ &= \sqrt{0.0099920016 + 0.002244485376 + 0.001058003456} \\ &= \sqrt{0.012294490432} \\ &= 0.11088 \end{aligned}$$

Based on the calculation results of  $S_{ab}$ , the next step is calculating the t statistics value of the influence of mediation is as follows:

$$t = \frac{ab}{S_{ab}} = \frac{0.846 \times 0.735}{0.11088} = \frac{0.62181}{0.11088} = 5.608$$

Because t count (5.608) > t table (2.001) with a significance level of 0.05, it can be concluded that motivation is a mediation variable that mediates the relationship between remuneration and performance

## Discussion

A remuneration is a form of incentive that can motivate employees to carry out their duties. Remuneration is a tool for management to motivate employees. The findings of this study are consistent with the existing theory that remuneration influences motivation. However, it is important to take into consideration the fairness principle as described by equity theory in implementing remuneration. Equity theory is a theory that starts on the perception of individual justice. This theory explains how beliefs, perceptions, and attitudes will influence

motivation. The point is that remuneration should be based on employee performance evaluation. Giving fair and transparent remuneration will impact the creation of a conducive work atmosphere so that employees can carry out their duties properly and improve performance (Mustikaningsih and Handayani, 2014). Support for the importance of considering remuneration policies was also stated in a study by Singh et al. (2015). The results of this research implied the need for appropriate remuneration policies to be implemented for employees. Thus, the provision of remuneration can increase employee motivation when the remuneration policy has been made appropriately based on performance.

Based on the incentive theory's nature about the importance of incentives in encouraging individual behavior, this research showed that the remuneration given to employees can boost their performance. This research result is similar to research by Wilfred et al. (2014), Ojeleye (2017), and Alfian and Pratama (2017) that found a significant influence on remuneration on performance. The research results concluded that remuneration is an important element in employee performance enhancement. Remuneration is the primary source of motivation for employees in stimulating performance achievement. Remuneration given to employees will provide support and have a positive impact on satisfaction so that it will improve performance. With appropriate compensation, employees will be encouraged to commit better and devote all their efforts to carrying out their work and ultimately impacting employee performance in congruence with organizational expectations.

The significant result obtained from the effect of motivation on employee performance is explained through the expectancy theory. This theory describes the two main assumptions that drive a person to behave. These assumptions are related to the expectations that will be received or resulting from action for behavior. The attractiveness of the expectancy theory lies in the rewards that will be obtained, which are considered to increase effort at work. In line with this theory, the results of this study found that motivation has a significant effect on performance. Motivation is a factor that encourages, generates, and sustains individual behavior so that motivation plays an important role in achieving performance. The higher the employee's motivation, the performance will increase, and vice versa, if the employee's motivation is low, the resulting performance will be unsatisfactory. The results of this study are consistent with the research of Trskova (2016), Barkley (2017), Muogbo (2013), and Nduka (2016). Motivation, both intrinsic and extrinsic, is important for management's attention in achieving organizational performance. When this motivation can attract and stimulate employees, it is hoped that employee productivity will increase.

This research result showed that motivation mediates the remuneration effect on performance. Following expectancy and incentive theories, giving compensation as an appreciation form to employees will encourage them to be more motivated to complete their duties. This motivation will actuate and direct employees to work in carrying out their respective jobs in achieving goals with full awareness and responsibility (Hasibuan, 2012). Employees with high motivation will strive for various things to be done both in innovative and creative ways with the aim that their work can be completed properly according to organizational expectations. In this condition, it will encourage the achievement of better and maximum performance. The performance achievement that has been produced by employees is the high motivation effect that the employees have, which comes from various things, one of which is the right and fair compensation or remuneration provided by the organization. Thus, it can be referenced that adequate remuneration, which is in line with expectations, will provide more motivation to employees in executing their work so that it affects improving performance.

## **5. Limitations**

The implementation in this study has a limitation in terms of performing a case study approach which only taking the perception of the remuneration implementation from one place or organization. To generalize the results, future research should be able to use several

organizations collecting data to gain a better conclusion on the mediating effect of motivation toward the relationship between remuneration and performance.

## 6. Conclusion

The result of this study indicated that remuneration had a significant effect on motivation and employee performance. This research result also denoted that motivation mediates the remuneration effect on employee performance. It means that giving fair and appropriate remuneration to employees will improve their motivation in carrying out their job duties and responsibilities. In such conditions, high motivation will encourage employees to commit better to their work so that employee performance will be fulfilled and according to the organization's demands. This result concluded that motivation has a more significant role in improving employee performance than simply giving remuneration. This result indicated that motivation is a vital factor to consider in achieving better performance. This essential motivation role in improving employee performance is expected to be a concern for leaders to encourage employees to perform and complete their work so that organizational goals can be reached.

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**Profil Penulis**

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