



## Compensation Effects and Organizational Climate on Employees' Performance by Organizational Commitment

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HR's main challenge is how to build a performance culture where employees can provide optimal performance. In this study aims to determine the effect of compensation and organizational climate on organizational commitment and influence effect on employee performance. One of the factors to improve employee performance is high organizational commitment as well. Previous studies have suggested that compensation and organizational climate influence the organizational commitment. Here, we found that organizational commitment becomes one of the main factors that affect employee performance. This research was conducted by distributing questionnaires by collected data. After the data collected, we processed this data using structure equational modelling with compensation and organizational climate as independent variables (X), employee performance as dependent variable (Y), and organizational commitment as intervening variables (Z). The result shows compensation and organizational climate has positive relationship with organizational commitment. Thus, the organizational climate and organizational commitment has positive and significant relationship with employee performance due to compensation has a negative significant relationship with employee performance.

**Keywords:** Compensation, Organizational Climate, Organizational Commitment, Performance.

### 1. INTRODUCTION

Changes in business and industry indirectly impact the need of human resources in a company as one of the crucial factors in organization or company development. A sufficient amount of it is able to help some big companies such as Google and Apple to save their expenses and gain higher profits [1]. Those professional Human Resources are demanded to continuously adapt to the changes, not only in their own professional competence but also in Human Resources Management (HRM) strategy [2]. It is expected that HR's role and competence can adapt to every year of business change that lead to the requirement of certain competence needed by the company. HR has significant role to recruit, as well as to maintain and to develop its human capital in the company [3]. It also functions as the key to have the employees to possess the same vision and mission as the company [4]. The primary challenge of HR is to build performance culture of the employee to work optimally, therefore, research and development is progressively required to have a sustainable competitive quality of human resources - related to its performance [5, 6, 7].

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One of the factors to improve employees' performance is commitment [8]. Employees with high commitment and trust will put their best effort to contribute to company success [9]. The company just need to look for factors that improve organizational commitment of its employees so that they can perform well [10]. There are some factors that influence significantly organizational commitment of employees in a company. The factors are work satisfaction, motivations, culture, leadership and cooperation [11]. Compensation is also another factor considered to influence the commitment of the employees since the higher compensation given by the company to its employees, the better commitment will be fulfilled [12]. Thus, the compensation of influence organizational commitment and employees' performance is raises at PT Gajah Tunggal Tbk. [13]. Some previous similar studies showed the same result as well done [14, 15, 16]. The studies did not put organizational commitment as intervening variable whereas it has been one of another important aspects in order to improve employees' work performance, especially research in pharmacy company in Indonesia [17].

From the description of the background of the study and the previous studies mentioned before, the problems going to be discussed in the present study are formulated as the following: (1) To what extent compensation affects organizational commitment? (2) To what extent organizational climate affects organizational commitment? (3) To what extent compensation affects employees' performance? (4) To what extent organizational climate affects employees' performance? And (5) To what extent organizational commitment mediates compensation, and organizational climate on employees' performance? Based on the background and the problems of the present study, therefore, the purposes of the study are investigating the effect of compensation on employees' performance mediated by organizational commitment and investigating organizational climate on employees' performance mediated by organizational commitment.

## 2. METHODOLOGY

### A. Compensation

The compensation is something awarded to employees to recompense their services to the company [18]. Compensation as an important factor to keep the best quality of human resources in a company [18]. On the other hand, compensation is termed as a gift for the employees after accomplishing some assignments or works given by the company which will finally reduce by some points based on the company's and government's regulation [19, 20]. Salary increase impacts the level of employees' turnover and it is more to those with high work performance [21]. Employees who give their best performance are usually offered higher salary to prevent them from leaving the company. As a predictor of career satisfaction, the offer is also accompanied by a chance of being promoted and valuable compensation.

Compensation has two major components, namely, direct compensation (honorarium, salary, incentive, commission, and bonus) and indirect compensation (financial use, such as insurance and vacation services provided by the company). The compensation is a feedback for employees in the form of monetary and non-monetary [22]. In short, compensation has two dimensions. The first dimension is factor related to money (direct) and the second one is not associated with money (indirect).

### B. Organizational Climate

Tracing back from 1930, researchers tried to divert their attention from soft psychological environment to a hard one to find a definition of a term of organizational climate [23]. The first researcher who investigated organizational climate was Kurt Lewin. He emphasized that organizational climate refers to the environment that unconsciously felt by the member of an organization. Briefly, it points to how well the member of the organization to have their own perception on organization environment [24]. The organizational climate is the

perception that every member of an organization has about their work environment [25]. Organizational climate is enriched by the interaction between an organization and the environment. It becomes one of the crucial parts of an organization related to other phenomena occur in an organization such as work satisfaction, work performance, leadership behavior, quality of the interaction between group work [26]. Organizational climate has five dimensions that is work satisfaction, motivation, culture, leadership and cooperation [27].

### C. Organizational Commitment

Organizational commitment is a certain degree of trust of employee for believing and accepting all the organization's aims by taking or leaving it [28]. Organizational commitment is a behavior that reflects of feeling like or dislike of employee of an organization.

There are three components in organizational commitment [29]. The first component, organizational commitment, is affective commitment which points to emotional binding between the employee and the organization in identifying and getting involved in every organization activity. The second component is the continuation of the employees' commitment based on the associated fund by leaving the organization. A normative component as the third component is related to the obligation of the employee for staying in the organization. Among those three components, organizational commitment ties up the employee and the organization in a bundle. Organizational commitment has become one of the most popular work attitudes that has been studied by practitioners and researchers since its impact is significant to an organization result for instance working performance of employee. On the other hand, the organizational commitment has three dimensions namely affective, normative, and continuance commitment.

### D. Employees Performance

Definition of employees' performance is action done by the employee in giving their contributions to an organization in the term of the quality, the output quantity, the output of period of time, the attendance at work, and cooperative attitude [30]. Performance is the level of success of someone in one period in doing his jobs, for example standard work result, target or agreed criteria at first place. The performance of an employee is a main domain that indicates the effectivity of human resources. Work performance is multi component concept with working behavior also fundamental responsibilities as part of job description. It requires bigger cognitive competence facilitated by knowledge of technical demands or principle to ensure one's capability in executing a job successfully. Individual's capability of self-adaptation and supportive provision are needed in dynamic working situation is a terminology of adaptive performance. A good adaptive work performance means that the employee can face working environment that is easy to change, for example

technology change, organization structure change, deployment change and so on. Along with the adaptation of the capability, many efforts have been done in order to make sure the significance of non-work performance component to create a better workplace such as contextual performance. Contextual performance is a prosocial behavior shown individually in work management. Prosocial behavior as behavior of achievement of (1) every member of the organization; (2) individual, group, or organization or the interaction among its members in playing the role; (3) a behavior to drive individual, group, or organization improvement as the main aim. It can be concluded that employees' performance has three dimensions namely work performance, adaptive performance, and contextual performance. Therefore, a triarchy model is created as can be seen from the Figure 1.

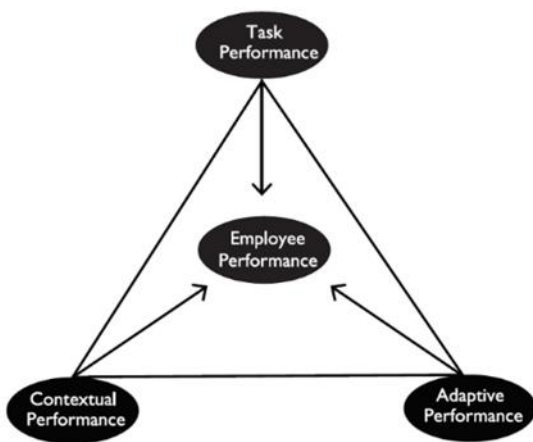


Figure 1. Triarchy Model of Employees' Performance

**E. Research Hypotheses**

Based on the description of the literature explained above, the present study proposes some hypotheses as follows: The higher compensation received by the employee, the less possibility of the employee to leave the company. It shows that there is a significant relationship between compensation and commitment of the employee to organization. A similar statement that compensation has significant positive effect on organizational commitment in a company, therefore a hypotheses is proposed as the following:

**(H<sub>1</sub>):** Compensation has significant effect on organizational commitment

The dimensions of organizational climate have significant and positive correlation to organizational commitment in telecommunication companies in Malaysia. Organizational climate impacts on organizational commitment related to motivation of the employee. Here, organizational climate has positive effect on organizational commitment. Based on the detailed literature mentioned above, a hypothesis is proposed as the following:

**(H<sub>2</sub>) :** Organizational climate has positive effect on organizational commitment

Compensation describes an important relationship between employee and a company. Employee shows his best work performance for financial or non-financial reward. Therefore, compensation can also be said that it is a vital key to keep company's best employees and to improve the employees' performance [31]. A research about the effect of compensation on employees' performance in bank sector in Pakistan [31]. The study showed that there is a positive and significant relationship between compensation and employees' performance. A positive relationship between compensation and employees' performance [32]. Based on the detailed literature previously stated, the hypothesis is formulated as the following:

**(H<sub>3</sub>) :** Compensation has positive effect on employees' performance

Good organizational climate is a primary pre-requirement for success of every company, therefore it is particularly important to ensure a good organizational climate for employees' performance. A research to find out the relationship between organizational climate and employees' performance capacity. Here, organizational climate is effected to employees' performance with significantly, psychologically. Therefore, based on those previous literature, a hypothesis is formulated as the following:

**(H<sub>4</sub>) :** Organizational climate has positive effect on employees' performance.

Organizational commitment has significant effect on work satisfaction, and work satisfaction has significant effect on employees' performance. Here, organizational commitment, particularly, affective commitment, has significant effect on employees' performance. Therefore, a hypothesis can be formulated as the following:

**(H<sub>5</sub>) :** Organizational commitment has positive effect on employees' performance.

Furthermore, the research model for five hypotheses is showed in Figure 2.

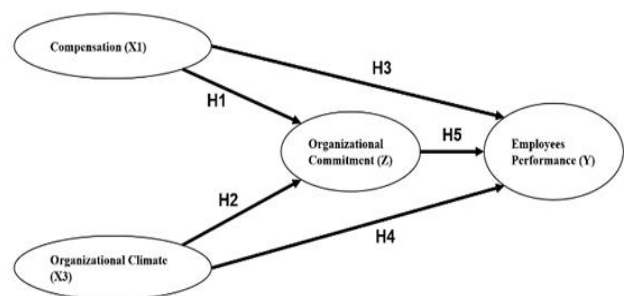


Figure 2. Research Model

Here, the current study was conducted in four biggest different pharmacy companies, that is PT Kalbe Farma Tbk., PT Dankos Farma, PT Hexpharm Jaya, dan PT Finusolprima. Answering the research questions, the researcher applied quantitative approach. The aim of this kind of approach is to test the research model, the significance relationship between the variable and the factors, and the hypotheses [33]. Questionnaire was addressed to select the respondents from the four companies by applying quantitative method. The phases in this study were four namely pretest survey, research model establishment, confirmation of the study, and data analysis [34]. Random probability sampling was also applied in this study. Acceptable ratio to minimize deviation is 15 respondents for each dimension/parameter for the model. Therefore, there are 13 dimensions proposed in this research with 255 sample employed as the respondent. Survey was conducted by distributing questionnaire to the employees of PT Kalbe Farma Tbk., PT Dankos Farma, PT Hexpharm Jaya, dan PT Finusolprima. The data then analyzed by applying Structural Equation Model (SEM) analysis method to investigate the correlation between the variables. There are two exogeneous variables in this study, namely, compensation and organizational climate; and two endogenous variables that is organizational commitment and employees' performance. To measure compensation variable with his four (4) statements in organizational climate variable which consist of ten (10) statements, six (6) statements for measuring organizational commitment and finally another six (6) statements for measuring employees' performance [35, 36, 37].

This study applied Likert Scale to measure data gotten from the questionnaire. The study also utilized confirmatory factor analysis to assess value of Kaiser-Msyer-Olkin measure of sampling (KMO) and measures of sampling adequacy (MSA) with 0,5 – 0,9 is the minimum acceptable value (Malhotra, 2013). Cronbach alpha reliability analysis was also applied with >0.6 is the standard value of acceptable internal consistency. Testing the hypotheses, the writer used estimated coefficients and p-value by LISREL 8.8. if the estimated value is under 0.05, it means that p-value has significant effect [38, 39].

**3. RESULT AND DISCUSSION**

This study used LISREL 8.8 software to find out the correlation between compensation, organizational climate, organizational commitment and employees' performance.

**A. Statistical Descriptive**

Here, 255 sample employed in this study, namely, PT Kalbe Farma (48.6%), 62 samples of PT Hexpharm Jaya (24.3%), 38 samples of PT Finusolprima Farma (14.9%), and 31 samples of PT Dankos Farma (12.2%). Based on their length of working time, 100 employees (39.2%) have been working for more than 10 years, 89 employees (34.9%) have been working for 5 up to 10 years and 66 employees (25.9%) have been working less than 5 years.

For their educational level, 200 employees are undergraduate (78.4%), 46 employees is diploma graduate (18%) and post-graduate is 9 people (3.5%).

**B. Normality and Linearity Test**

Applying normality test by using multivariate normality analysis, the result does not fulfill the criteria since the p value of skewness and kurtosis is <0.05. However, this problem can be overcome by having GoF parameter NNFI > 0.9 which is 0.94 (see Table I).

Table I. Multivariate Normality Test Result

Parameters	Skewness	Kurtosis	Skewness & Kurtosis
Value	2.043	27.422	
Z-Scores	6.095	3.333	
Chi-Square			48.252
P-Value	0.000	0.001	0.000

Linearity test is done to find out whether the variables have linear significant relationship or not. A strong correlation shows that there is a linear relationship between dependent variables and independent variables. Linearity test result shows that deviation from linearity value is 0.05. In other words, there is a linear relationship between dependent variable and independent variable (see Table II).

Table II. Linearity Test Result

Relationship of Variables	Deviation from Linearity
Organizational Commitment → Compensation	0.479
Organizational Commitment → Organizational Climate	0.087
Employees Performance → Organizational Commitment	0.094

**C. Validity Test**

Applying LISREL system analysis after the data was entered, the writer discovered a model is showed in Figure 3.

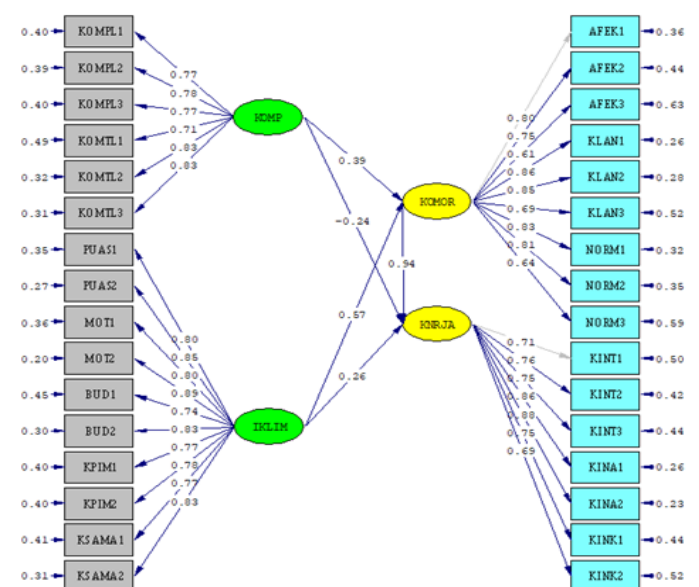


Figure 3. Research Basic Model with factor loading value

Acceptable factor loading (FL) value of each indicator is 0.50. And from the figure above, factor loading (FL) value of each indicator is above 0.50.

**D. Reliability Test**

Testing the fit of the model used, the reliability of every indicator is also important to measure the consistency of the research instruments. Construct Reliability (CR) value must be above 0.70 and the Average Variance Extracted (AVE) value is above 0.50 to show the consistency level of the research instrument. The result of AVE value testing of this research model is showed in Table III.

Table III. Construct Reliability and Average Variance Extracted

Variable	Construct Reliability	Average Variance Extracted	Description
Compensation	0.704	0.612683	Reliable
Organizational Climate	0.859	0.651420	Reliable
Organizational Commitment	0.866	0.585267	Reliable
Employees Performance	0.840	0.599543	Reliable

**E. Model Fitting Test**

The result of the test of some goodness of fit index parameter as shown in table 5 indicates that 4 parameters fit suggestable cut-off value. Therefore, the research model in figure 4 can be proceed to test the hypotheses (see Table IV and Figure 4).

Table IV. Goodness of Fit Index

Index	Result	Cut-off Value	Criteria
CFI	0.94	≥0.9	Fit
TLI/NNFI	0.94	≥0.9	Fit
NFI	0.93	≥0.9	Fit
IFI	0.94	≥0.9	Fit
df	458	>0	Fit
RMSEA	0.121	≤0.08	Less Fit
GFI	0.65	≥0.9	Less Fit
AGFI	0.60	≥0.9	Less Fit

**F. Hypotheses Test**

Hypothesis Test is done by using t-value with level of significance of 0.05. If the value is > 1.96, so Ho is rejected (see Table V).

Table V. t-value Test Results

Variable	t-value	Description	Result
Compensation → Organizational Commitment	5.28	Positive and significant	H1 accepted
Organizational Climate → Organizational Commitment	7.36	Positive and significant	H2 accepted
Compensation → Employees' Performance	-3.15	Negative and significant	H3 rejected
Organizational Climate → Employees' Performance	3.22	Positive and significant	H4 accepted
Organizational Commitment → Employees' Performance	7.96	Positive and significant	H5 accepted

Table V shows the result of hypotheses testing was gained. T-value for the effect of compensation on organizational commitments is 5.28 (t value > t table 1.960) which means that there is a significant positive effect of compensation on organizational commitment. T-value for the effect of organizational climate on organizational commitments is 7.36 (t value > t table 1.960) which means that there is a significant and positive effect of organizational climate on organizational commitment. T-value for the effect of compensation on employees' performance is -3.15 (t value < t table 1.960) which means that there is a significant and negative effect of compensation on employees' performance. T-value for the effect of organizational climate on employees' performance is 3.22 (t value > t table 1.960) which means that there is a significant and positive effect of organizational climate on employees' performance. T-value for the effect of organizational commitment on employees' performance is 7.96 (t value > t table 1.960) which means that there is significant and positive effect of organizational commitment on employees' performance.

**G. Intervening Effect**

Table VI shows direct and indirect effect from independent variable compensation and organizational climate toward dependent variable employees' performance with intervening variable which is organizational commitment (see Table VI).

Table VI. Direct and Indirect Effect

Relationship	Direct Effect	Indirect Effect
Compensation → Organizational Commitment	0.000	0.247
Compensation → Employees Performance	0.261	0.348

Intervening variable test using SPSS shows that indirect effect from two independent variable (compensation and organizational climate) to variable dependent have bigger effect than direct effect from each variable. Based on the result of the hypothesis test, compensation has positive and significant effect on organizational commitment. The

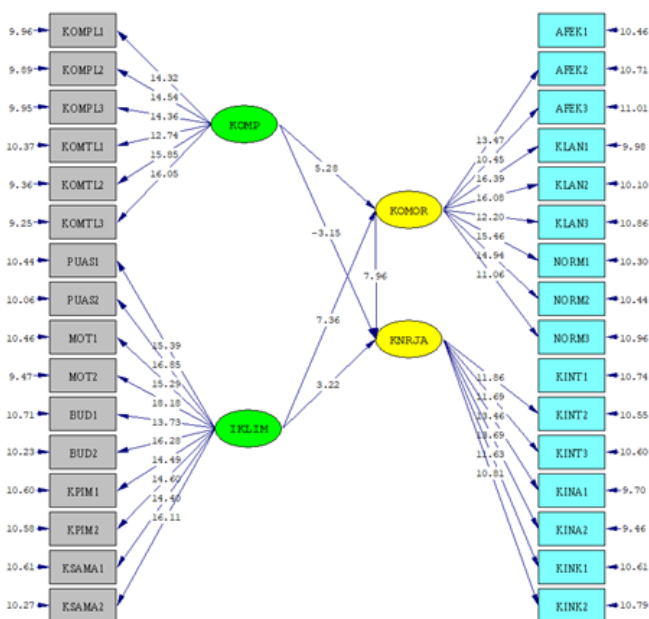


Figure 4. Fit Research Basic Model with t-value

result means that the better compensation got by the employee, the higher organizational commitment the employee give to the company. A good compensation management from a company motivates the employee to build a better relationship with the company and to improve organizational commitment. A positive and significant effect of compensation and organizational commitment. Here, the result of this study showed that organizational climate has positive and significant effect on organizational commitment of the employee. Here, a positive and significant correlation between organizational climate and organizational commitment especially affective commitment from the employee. Thus, it's indicated organizational climate has positive effect on organizational commitment. Therefore, it is particularly important to create a trustworthy work environment among employees to improve organizational commitment for the company.

Furthermore, the test of the hypothesis showed that compensation has significant negative effect on employees' performance. It means that the higher compensation that the employee gets, the lower work performance that the employee will give to the company. This result is different from a result of a study conducted compensation and employee performance. The study showed a result that compensation has positive effect on employees' performance. Here, compensation has less significant and positive effect on employees' performance. The compensation has negative effect on performance since these companies are the biggest ones and have stable growth each year, salary raise is a common and standard thing for those who do not have good work performance, so that the employees are not being motivated to perform better. There are some employees are less promoted by the company than the new employees. The condition leads them to work accordingly, and there are also some of them are not being paid properly which ultimately effects the result of the questionnaire. The result of the discussion answered why compensation has effects on organizational commitment, but it does not improve the employees' performance. It can be caused by the high employees' commitment but differently impacts their performance. The result of this study also displayed the effect of mediation (intervening) of organizational commitment. Therefore, it can also be concluded that compensation indirectly give positive effects on employees' performance.

Here, the result of this study displayed that organizational climate has positive and significant effect on employees' performance. This result indicates that the higher the level of organizational climate that a company has, the better of work performance of the employees give. Here, a many factor of organizational climate has positive effect on employees' performance, such as change management, conflict management, problem management, risk taking, and intrapersonal relationship within organization. Another research also discovered that employees' performance is positively influenced by strong

organizational climate. The seventh result of hypothesis test showed that organizational commitment as intervening variable has positive and significant effect on employees' performance in organization. It can be concluded that the higher organizational commitment of the employee gives to the company, the better work performance that the employee will show. Organizational commitment factors such as affective commitment, continuation of commitment, and normative commitment that have positive and significant effect on work satisfaction and employees' performance. One of the organizational commitment factors, affective commitment, has emotional interest with employees' interest in identifying and being involved in every organization activity. On the other hand, the continuation factor is associated with the employee's decision of leaving the company since it relates to money factor. And normative factor points to the obligation that the employees must remain in the organization. Here, the organizational commitments have positive and significant effect on employees' performance. However, affective commitment was the only factor which has the strongest effect.

## 5. CONCLUSIONS

The first hypothesis test result is that compensation has positive and significant effect on organizational commitment which means that the higher compensation that the employees get, the higher commitment they will give to the company. The second result is that organizational climate has positive and significant effect on organizational commitment of the employees. It means that the better organizational climate is created, the higher commitment of the employee will be shown. The third result stated that compensation has negative and significant effect on employees' performance. It tells us that the better the compensation is, the worse performance is shown by the employees will. The fourth result show that organizational climate has positive and significant effect on employees' performance. The fifth test indicates that organizational commitment has significant negative effect on employees' performance.

This study is only limited to 255 respondents from four pharmacy companies. Other factors from each variable have not been researched. The researcher applied limited dimension and factors based on some theories and case studies in pharmacy companies, other kind of companies are excluded. Therefore, further exploration is suggested and required by another researchers. Another further research is available to be conducted in order to get another detail result, for instance, organizational climate perspective. A culture, leadership, motivation, cooperation and work satisfaction effect other factors is improve organizational climate. The result of this study is expected to give contribution to HR practitioners in each pharmacy company in order to figure out what factors that support performance of the employee. This study also highlighted some dimensions of the variables (compensation and

organizational climate) need to be paid attention to in order to improve the employees' commitments and performance. This research also implies that a company must pay a careful attention to its organizational climate to ensure the organizational commitment and performance of the employees are well maintained. The company can also keep the satisfaction level of the employees to increase their own employees' organizational commitment. There are two important dimensions of compensations, namely directly and indirectly. Direct compensation can be in form of cash, for example salary, bonus, or subsidy as results of their achievement. Indirect compensation can be in form of facilities provided by the company, such as health insurance or work insurance. Company also must be able to manage other dimensions of its own organizational climate. To create a better culture of the company, it is a must to make sure that every employee real comprehends and implements every value that the company has in every single of his activity. HR Department also must be more intensively improve the competence of leadership of all leaders from top to bottom in order to give positive influence on employees' commitment and performance. Company can also produce another kind of projects and activities between departments to improve the employees' performance. Motivation of the employee is also necessary to maintain so that working rotation works properly and boredom can be avoided. However, in the other hand, stress level of the employee needs to be monitored. And the steps are important to improve organizational climate which will ultimately increase organizational commitment.

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