
WORK ENVIRONMENT AND COMPENSATION'S EFFECT ON EMPLOYEE PERFORMANCE: MEDIATING ROLE OF JOB SATISFACTION



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Abstract

This thesis aims to examine the influence of the work environment and compensation on employee performance with job satisfaction as an intervening variable. This study employs a quantitative research approach using a survey method, with data collection carried out through questionnaires. The sampling technique used is purposive sampling. Data was collected by distributing questionnaires to 120 employees of PDAM Kota Tarakan. The analysis method applied is Partial Least Squares (PLS). The results of this study indicate that the work environment positively affects employee performance, the work environment positively affects job satisfaction, compensation positively affects employee performance, compensation positively affects job satisfaction, job satisfaction positively affects employee performance, the work environment positively influences employee performance through job satisfaction as an intervening variable, and compensation positively influences employee performance through job satisfaction as an intervening variable.

Keywords: Work Environment, Compensation, Job Satisfaction, Employee Performance

INTRODUCTION

The success of an organization depends on its human resources, which are crucial for achieving both short-term and long-term goals. All organizations rely on their human resources as they form the backbone of business operations. Given the significance of human resources for organizational success, research into what motivates workers to perform at their best is essential. The workplace is one of the elements that can potentially influence how well an individual performs their job. Anything in the surrounding environment that may impact an employee's level of job satisfaction while performing their work is considered part of the work environment. This includes the physical space where workers carry out their tasks, such as offices and break rooms (Sakban et al., 2019).

According to Adha et al. (2019), workers highly value their work environment, as it has the power to make them feel comfortable and provide the necessary tools to perform well. Employee happiness, well-being, and work outcomes can benefit from a positive and supportive workplace. Conversely, a non-supportive or stressful environment can negatively impact employee performance and well-being (Saptono et al., 2020). To maximize employee outcomes and deliver quality service, it is vital to create a pleasant work environment. Two critical factors that influence how well an individual performs their job are salary and the atmosphere of the workplace.

Compensation and employee benefits are also essential aspects. According to Tinneke (2017), compensation is defined as the payment made to employees for their significant contributions to the organization, ensuring they continue to provide positive contributions to its goals. Taufiqurokhman (2009) defines compensation as the amount of money paid to employees for their work contributions to the organization or company. Appropriate compensation is crucial and must align with the prevailing labor market conditions. Inadequate compensation may lead to workplace problems or even cause losses to the organization (Wardhana, 2023). Whenever changes are made to the way work is performed, organizations must adjust their compensation accordingly. The purpose of a compensation plan is to motivate workers to perform better by offering incentives to achieve specific goals, ensuring they have all the necessary resources to work efficiently.

Workplace stress, an emotional reaction to various job aspects, is dynamic and constantly changing. An employee may feel connected to certain aspects of their job but not others. When employees evaluate their work environment positively, it leads to a favorable attitude toward their job, which is known as job satisfaction. This evaluation may be part of their job responsibilities and can be seen as a form of gratitude for their efforts in meeting core values. If employees enjoy their work, they will be more engaged and satisfied (Masram & Muah, 2017). According to Kamaroellah (2014), several factors contribute to job satisfaction, including attitude, relationships, skills, opportunities for advancement, salary, job security, and the nature of the work itself. These factors reflect employees' feelings toward all aspects of their job, both positive and negative, and how well these meet their needs and expectations (Priyono, 2010). An individual's value system determines how much they like their job, which, in turn, determines their overall job satisfaction. Therefore, the concept of job happiness can vary from person to person.

Employee performance is the output and work behavior of an individual within a given period. Performance can be assessed based on their ability to complete assigned tasks and responsibilities (Kasmir, 2022). According to Priyono (2010), an individual's

performance is the result of their efforts, evaluated against pre-established criteria. When discussing job-related topics, people typically focus on the details, meaning that the quality of a job depends on whether it meets the requirements of the organization or business. Fahmi (2021) suggests that one of the most important components of high performance is awareness and control over the variables affecting employee output. Workplace discipline is one such factor that can influence productivity (Irwan Usman, 2022). Workplace discipline reflects how well an employee adheres to company policies. A disciplined employee will follow rules without the need for strict supervision, including punctuality, efficient use of work hours, and compliance with other regulations. Therefore, by adhering to company rules and fulfilling their responsibilities as employees, individuals contribute to the overall performance within the organization.

This study aims to address several key questions regarding the impact of work environment and compensation on employee performance at the regional drinking water company of Tarakan City. Specifically, the study seeks to determine whether the work environment positively influences employee performance, whether the work environment has a positive effect on job satisfaction, whether compensation positively affects employee performance, and whether compensation influences job satisfaction. Additionally, the study examines the impact of job satisfaction on employee performance, the effect of the work environment on employee performance with job satisfaction as an intervening variable, and the influence of compensation on employee performance with job satisfaction as an intervening variable at the company.

The primary objectives of this research are to: (1) analyze the effect of the work environment on employee performance at the regional drinking water company of Tarakan City; (2) analyze the effect of the work environment on job satisfaction at the same company; (3) analyze the influence of compensation on employee performance; (4) analyze the impact of compensation on job satisfaction; (5) analyze the effect of job satisfaction on employee performance; (6) assess the impact of the work environment on employee performance with job satisfaction as an intervening variable; and (7) evaluate the influence of compensation on employee performance with job satisfaction as an intervening variable at the regional drinking water company of Tarakan City.

REVIEW OF LITERATURE

Employee performance can be influenced by various factors, one of the most significant being the overall work environment. A conducive work environment includes elements such as a pleasant atmosphere, sufficient resources to assist workers in performing their tasks, camaraderie among colleagues, and mutual respect between managers and subordinates. A positive work environment can enhance productivity, whereas a lack of necessary facilities can have the opposite effect. Thus, it is crucial for businesses to pay attention to the working conditions of their employees. Empirical studies by Bintang et al. (2022) and Halizah et al. (2023) have demonstrated the positive influence of work environment on job satisfaction. A sense of belonging in the workplace plays a key role in how much individuals enjoy their work, with research consistently showing that employees are more engaged and happier when working in a pleasant environment. This leads to the formulation of the following hypothesis:

Hypothesis 1: The work environment positively influences employee performance.

Empirical evidence supports the positive relationship between work environment and job satisfaction, as shown by Halizah et al. (2023) and Bintang et al. (2022). Feeling accepted in the workplace is one of the most critical factors determining whether an individual enjoys their work. According to numerous studies, employee happiness in the workplace is significantly influenced by the work environment. When employees are satisfied with their work environment, they are more likely to strive for excellence. This leads to the formulation of the following hypothesis:

Hypothesis 2: The work environment positively influences job satisfaction.

Compensating employees with wages that reflect the quality of their work is a common strategy used by managers in both the public and private sectors to motivate employees to perform better. Compensation is one of the most influential elements affecting employee satisfaction and behavior. Employees generally report higher levels of satisfaction related to their income, and employee happiness is directly correlated with their productivity. Empirical studies, such as those by Dies Diminica Selviana Siki (2021) and Kumalasari and Efendi (2022), have confirmed a significant relationship between compensation and employee performance. These studies indicate that adequate compensation can lead to higher employee satisfaction, which in turn enhances performance. Based on these findings, the following hypothesis is proposed:

Hypothesis 3: Compensation positively influences employee performance.

Further empirical evidence has confirmed the significant influence of compensation on job satisfaction, as demonstrated in the research by Dies Diminica Selviana Siki (2021). According to this study, compensation and benefits contribute to high levels of employee satisfaction. Employees who receive good compensation tend to perform better, and higher salaries are often a key factor in worker happiness. This supports the formulation of the following hypothesis:

Hypothesis 4: Compensation positively influences job satisfaction.

Numerous experts have focused on the concept of job satisfaction, as it is significantly correlated with increased productivity. Several empirical studies, including those by Hartono and Nurwati (2021) and Halizah et al. (2023), have shown that job satisfaction positively and significantly influences employee performance. The reciprocal relationship between job satisfaction and employee performance can be explained from a psychological perspective, where an individual's success within a company is positively correlated with their level of job satisfaction. This suggests that satisfied employees tend to perform better. Based on both theoretical and empirical assumptions, the following hypothesis is proposed:

Hypothesis 5: Job satisfaction positively influences employee performance.

Previous empirical studies have established that the work environment significantly influences employee performance, as demonstrated by Bintang et al. (2022) and Kumalasari and Efendi (2022). Additionally, the work environment positively affects job satisfaction. These studies have confirmed that job satisfaction plays a positive and significant role in improving employee performance. Given these findings, the following hypothesis is formulated:

Hypothesis 6: The work environment positively influences employee performance through job satisfaction as an intervening variable.

Empirical research has consistently confirmed the positive and significant relationship between compensation and employee performance, as found by Kumalasari and

Efendi (2022). Additionally, Odunlade (2012) has shown that compensation also affects job satisfaction. Based on these previous studies, it can be concluded that the relationship between compensation and employee performance can be direct or mediated by job satisfaction. Consequently, this research proposes the following hypothesis:

Hypothesis 7: Compensation positively influences employee performance through job satisfaction as an intervening variable.

RESEARCH METHOD

This research design utilizes a quantitative survey-based method to collect objective and measurable data. The quantitative method allows for data collection through standardized statistical procedures, which can yield findings that are generalizable to a broader population (Sujarweni, 2024). Data collection is conducted using a questionnaire that has been designed and developed by the researcher. The research focuses on the Kalimantan region, with the object of the study being employees of the Perusahaan Daerah Air Minum (PDAM) in Tarakan City, which is relevant to the topic and objectives of this study.

The population in this study consists of all employees working at PDAM Tarakan City, totaling 120 individuals. The sample is selected using a saturated sampling technique or census, where all members of the population are included as the sample due to the limited number and the relevance of each member to the research topic (Sujarweni, 2024). The selection criteria established to ensure respondent suitability are: respondents must be active employees with at least three years of service and must come from various divisions within the company.

The instrument used in this research is a closed-ended questionnaire, employing a Likert scale to measure the variables under study. The Likert scale enables the measurement of respondents' attitudes or perceptions toward the provided statements in the questionnaire, with the following scores assigned: SS (Strongly Agree) = 5, S (Agree) = 4, N (Neutral) = 3, TS (Disagree) = 2, and STS (Strongly Disagree) = 1. The questionnaire is distributed directly to respondents to allow for clarification of any difficult or ambiguous questions, and data collection is done directly after the respondents complete the questionnaires.

The data collection techniques used in this study include questionnaires, literature review, and direct observation. The questionnaire is used to gather primary data from respondents by providing a series of written questions that respondents must answer. Sugiyono (2019) states that the use of questionnaires allows researchers to collect data systematically and measurably. In addition, a literature review is used to explore relevant theories and prior research on the topic, while direct observation is conducted to gain further insights into the actual situation or conditions in the field.

The variables studied in this research work environment, compensation, employee performance, and job satisfaction have clear operational definitions. Work environment (X1) includes all factors that can affect employee satisfaction in performing their jobs, such as lighting, temperature, noise, space for movement, work relationships, and job security (Sedarmayanti, 2014). Compensation (X2) refers to the rewards given to employees for their contributions and work, including salary, allowances, incentives, and benefits (Tinneke, 2017). Employee performance (Y) is measured through quality, quantity, timeliness, and attendance at work (Mathis & Jackson, 2006). Job satisfaction (Z) reflects an individual's

attitude toward their job, influenced by factors such as salary, the job itself, coworkers, supervisors, and opportunities for promotion (Widodo, 2015).

The data analysis method used in this study is Path Analysis, which aims to test the direct and indirect relationships between the variables under study. Path Analysis helps map the influences between variables within the research model. In this study, analysis is conducted using SmartPLS software (Partial Least Square) to obtain more accurate model estimates without requiring strict assumptions about data distribution. This method is effective because it can handle data with large numbers of independent and dependent variables, as well as interrelated variables.

RESULTS AND DISCUSSION

Data Analysis Results

Convergent validity is an essential aspect of validity testing, as it assesses whether the indicators used to measure a particular construct are highly correlated with each other. In other words, it examines if different measures that should theoretically be related are, in fact, related. Convergent validity is typically verified by examining the factor loadings of the indicators. A factor loading greater than 0.70 is generally considered acceptable, indicating that the indicators are a good representation of the underlying construct.

Table 1. Outer Loading

Statement	Performance	Job Satisfaction	Compensation	Work Environment	Notes
PFM_P1	0.862				Valid
PFM_P10	0.758				Valid
PFM_P2	0.781				Valid
PFM_P3	0.784				Valid
PFM_P4	0.825				Valid
PFM_P5	0.790				Valid
PFM_P7	0.858				Valid
PFM_P8	0.794				Valid
PFM_P9	0.754				Valid
JS_P1		0.849			Valid
JS_P2		0.803			Valid
JS_P3		0.909			Valid
JS_P4		0.875			Valid
JS_P5		0.902			Valid
JS_P6		0.925			Valid
CP_P1			0.801		Valid
CP_P3			0.826		Valid
CP_P1			0.819		Valid
CP_P3			0.710		Valid
CP_P6			0.803		Valid
WE_P1				0.807	Valid
WE_P11				0.744	Valid

WE_P12	0.752	Valid
WE_P13	0.810	Valid
WE_P4	0.808	Valid
WE_P5	0.783	Valid
WE_P6	0.787	Valid
WE_P8	0.810	Valid
WE_P9	0.777	Valid

Source: Primary Data Processed, 2024

Table 1. presents the results of the Outer Loading for the variables of performance, job satisfaction, compensation, and work environment. The table lists the factor loadings of each indicator for these constructs. As shown, all indicators have factor loadings greater than 0.70, demonstrating that they meet the criterion for convergent validity. This table confirms that all the indicators used for measuring the respective constructs are valid, as their factor loadings exceed the recommended threshold of 0.70.

In research, reliability testing is crucial to ensure that the measurement instruments yield consistent and dependable results. Cronbach’s alpha and composite reliability are two important statistics used to assess the reliability of the constructs in a study. Table 2 displays the results of Cronbach's Alpha and Composite Reliability for the variables studied: performance, job satisfaction, compensation, and work environment. These reliability measures are used to evaluate the internal consistency of the indicators used to measure each variable. A value of Cronbach’s alpha above 0.7 generally indicates acceptable reliability, and Composite Reliability values above 0.7 are also considered acceptable.

Table 2. Cronbach’s Alpha and Composite Reliability

Variables	Cronbach's Alpha	Composite Reliability	Notes
Performance	0.939	0.948	Reliable
Job Satisfaction	0.959	0.966	Reliable
Compensation	0.912	0.929	Reliable
Work Environment	0.945	0.952	Reliable

Source: Primary Data Processed, 2024

From the Table 2, it can be observed that the Cronbach’s Alpha and Composite Reliability values for all variables are well above the 0.7 threshold, indicating that the measurement scales for performance, job satisfaction, compensation, and work environment are reliable. This shows that all variables in the study meet the reliability criteria, confirming the consistency and trustworthiness of the measurement instruments used in the research.

The R-Square (R^2) value is a metric used to evaluate how well the structural model predicts variability in the data in Structural Equation Modeling using PLS (SEM-PLS). To assess the strength of a model, an R-squared value close to 0.75 indicates a strong model, 0.50 indicates a moderate model, and 0.25 indicates a weak model. The relevant R-square values for the analysis are presented in the table below.

Table 3. R-Square Values

Variables	R-Square	R-Square Adjusted
Performance	0.794	0.789

Job Satisfaction	0.617	0.610
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Source: Primary Data Processed, 2024

Based on the output of the analysis using the bootstrapping method, the R-square values of 0.794 and 0.617 indicate that the model is strong and moderate. The R-square value for performance (Kinerja) is 0.794, which means that the work environment (X1) and compensation (X2) together explain 79.4% of the variability in employee performance (Y). The remaining 20.6% is influenced by factors outside the model. Similarly, the R-square value for job satisfaction (Kepuasan Kerja) is 0.617, indicating that 61.7% of the variability in job satisfaction (Z) is explained by the factors included in the model, with the remaining 38.3% being influenced by other factors not considered in the study model.

This analysis aims to confirm whether a hypothesis should be accepted or rejected by examining the degree of relationships between constructs, t-statistics, and p-values. The predictions and standard errors are determined by actual data, not statistical assumptions. According to the bootstrapping procedure used in this study, a p-value of 5% (less than 0.05) is required for alpha to accept the hypothesis. The results of the direct and indirect influence calculations are presented below:

Table 4. Direct Effects Test Results

Pathway	Original Sample	Standard Deviation	T Statistics	P Values
Work Environment → Performance	0.259	0.080	3.224	0.001
Work Environment → Job Satisfaction	0.539	0.083	6.505	0.000
Compensation → Performance	0.406	0.078	5.187	0.000
Compensation → Job Satisfaction	0.307	0.088	3.512	0.000
Job Satisfaction → Performance	0.325	0.094	3.467	0.001

Source: Primary Data Processed, 2024

The hypothesis testing results, based on the analysis using the bootstrapping method, provide significant insights into the relationships between the variables in the study. The first hypothesis (H1), which posits that the work environment positively affects employee performance, was supported by the results, showing a coefficient of 0.259, a t-statistic of 3.224, and a p-value of 0.001 ($p < 0.05$), indicating a positive and significant impact. Similarly, the second hypothesis (H2), which suggests that the work environment positively influences job satisfaction, also passed the test with a coefficient of 0.539, a t-statistic of 6.505, and a p-value of 0.000 ($p < 0.05$), confirming a strong and significant effect.

The third hypothesis (H3), which examines the effect of compensation on employee performance, showed a coefficient of 0.406, a t-statistic of 5.187, and a p-value of 0.000 ($p < 0.05$), indicating that compensation has a positive and significant effect on employee performance. Likewise, the fourth hypothesis (H4), regarding the positive influence of compensation on job satisfaction, was also confirmed, with a coefficient of 0.307, a t-statistic of 3.512, and a p-value of 0.000 ($p < 0.05$), highlighting the significant role of compensation in enhancing job satisfaction.

Finally, the fifth hypothesis (H5), which suggests that job satisfaction positively affects employee performance, was accepted, as the results indicated a coefficient of 0.325, a t-statistic of 3.467, and a p-value of 0.001 ($p < 0.05$), demonstrating that job satisfaction significantly contributes to improved employee performance. Overall, all five hypotheses

were supported by the analysis, confirming that work environment, compensation, and job satisfaction all have significant positive effects on employee performance and job satisfaction.

Table 5. Indirect Effects Test Results

Pathway	Original Sample	Standard Deviation	T Statistics	P Values
Work Environment → Job Satisfaction → Performance	0.539	0.083	6.505	0.000
Compensation → Job Satisfaction → Performance	0.307	0.088	3.512	0.000

Source: Primary Data Processed, 2024

The results of the indirect effects test, based on the bootstrapping method, provide valuable insights into the relationships between the variables with job satisfaction as an intervening factor. For H6, which posits that the work environment positively affects employee performance through job satisfaction, the analysis shows a t-statistic of 3.027 and a p-value of 0.002, both of which are statistically significant ($t > 1.96$ and $p < 0.05$). This confirms that job satisfaction mediates the relationship between the work environment and employee performance at PDAM Kota Tarakan. Similarly, for H7, which suggests that compensation positively affects employee performance through job satisfaction, the results show a t-statistic of 2.346 and a p-value of 0.019, also indicating statistical significance. This supports the idea that job satisfaction mediates the relationship between compensation and employee performance. In conclusion, both hypotheses are accepted, highlighting the critical role of job satisfaction as a mediator in the relationships between the work environment, compensation, and employee performance.

Discussion

Work Environment Positively Affects Employee Performance

The work environment (X1) has a significant positive impact on employee performance (Y), as indicated by a t-statistic value of 3.224 and a p-value of less than 0.05. A positive work environment plays a crucial role in determining employee performance within an organization. It creates a comfortable and safe space for employees, enhances focus, and supports them in achieving their work targets efficiently and effectively. This study demonstrates that a good work environment directly contributes to increased employee productivity. For instance, a comfortable workspace can improve work efficiency, harmonious work relationships foster better cooperation, and effective managerial support boosts employee motivation and loyalty to the organization. On the contrary, an inadequate work environment, such as poor physical conditions or negative interpersonal relationships, can hinder performance and reduce morale. These findings also support the theory by Lestary & Chaniago (2018), who state that the work environment is closely related to job satisfaction and employee performance. Previous studies by Bintang et al. (2022) and Halizah et al. (2023) further confirm the positive impact of the work environment on employee performance.

Work Environment Positively Affects Job Satisfaction

The work environment (X1) significantly influences job satisfaction (Z), with a t-statistic of 6.505 and a p-value of less than 0.05. The work environment is one of the main factors that affect employee job satisfaction. It encompasses everything related to the physical, social, and psychological conditions under which employees perform their tasks. Job satisfaction refers to the positive feelings employees experience towards their jobs, including their perceptions of various aspects of the work environment. This study shows a positive relationship between the work environment and job satisfaction. A comfortable and supportive work environment, such as a clean and comfortable workspace, good relationships among coworkers, and recognition and support from supervisors, increases employee job satisfaction. Conversely, a poor work environment, such as inadequate facilities or employee conflicts, can lead to dissatisfaction, which may ultimately reduce motivation and performance. These findings align with Lestary & Chaniago's (2018) theory that the work environment is a concept related to job satisfaction and performance. Previous research by Halizah et al. (2023) and Bintang et al. (2022) also strengthens this conclusion, showing that the work environment positively influences job satisfaction.

Compensation Positively Affects Employee Performance

Compensation (X2) has a significant positive effect on employee performance (Y), as shown by a t-statistic of 5.187 and a p-value of less than 0.05. Compensation is an essential factor that influences employee performance within an organization. It includes all forms of rewards provided by the company to employees as compensation for their contributions to achieving organizational goals. Fair and competitive compensation can enhance motivation, job satisfaction, and employee loyalty to the company. Effective compensation management is not only crucial for improving individual performance but also supports the achievement of overall organizational strategic goals. To create a productive and competitive work environment, companies need to design a compensation system that focuses on outcomes while considering fairness, transparency, and sustainability. This study's findings support previous research by Kumalasari and Efendi (2022) and Dies Diminica (2021), which also demonstrated the positive impact of compensation on employee performance.

Compensation Positively Affects Job Satisfaction

Compensation (X2) significantly influences job satisfaction (Z), with a t-statistic of 3.512 and a p-value of less than 0.05. Compensation plays a strategic role in creating job satisfaction, which in turn affects productivity and organizational sustainability. Forms of compensation include base salary, allowances, incentives, bonuses, and recognition. Job satisfaction refers to the positive feelings employees have about their jobs, influenced by their perceptions of various aspects of their work, including compensation. This study shows that competitive and expectation-aligned compensation significantly contributes to higher job satisfaction. When employees feel valued through adequate compensation, they tend to have a positive perception of the organization, exhibit higher commitment, and demonstrate stronger loyalty. Furthermore, satisfaction with compensation can create a harmonious work environment and reduce employee turnover. These findings support previous research by Dies Diminica (2021), which indicates that compensation has a positive effect on job satisfaction.

Job Satisfaction Positively Affects Employee Performance

Job satisfaction (Z) significantly affects employee performance (Y), as demonstrated by a t-statistic of 3.467 and a p-value of less than 0.05. Job satisfaction is essential for

improving employee performance. High levels of job satisfaction reflect the alignment between employee expectations and actual conditions at the workplace. This study shows a positive and significant relationship between job satisfaction and employee performance. Employees who are satisfied with various aspects of their jobs, such as fair compensation, harmonious work relationships, and career development opportunities, are more likely to work enthusiastically, creatively, and efficiently. Moreover, job satisfaction contributes to improved service quality, reduced workplace conflicts, and strengthened loyalty to the organization. These findings support Herzberg's theory, which states that job satisfaction is influenced by two factors: motivation factors (recognition, rewards, and growth opportunities) and hygiene factors (working conditions, salary, and security). Previous studies by Halizah et al. (2023) and Hartono and Nurwati (2021) also support the idea that job satisfaction positively influences employee performance.

Work Environment Positively Affects Employee Performance Through Job Satisfaction as an Intervening Variable

The work environment (X1) significantly affects employee performance (Y) through job satisfaction (Z) as an intervening variable, with a t-statistic of 3.027 and a p-value of less than 0.05. The work environment plays a crucial role in determining employee performance, both directly and indirectly through intervening variables such as job satisfaction. The work environment refers to the physical, social, and psychological conditions in which employees carry out their tasks. A conducive environment includes adequate facilities, a comfortable work atmosphere, harmonious work relationships, and a supportive organizational culture. This study shows that a supportive work environment positively affects employee performance, both directly and indirectly through job satisfaction. A good work environment increases employee motivation and morale, which in turn impacts productivity, creativity, and work quality. High job satisfaction encourages employees to contribute more towards achieving organizational goals. These findings support the theory by Lestary & Chaniago (2018), which relates the work environment to job satisfaction and performance. Previous research by Bintang et al. (2022) also supports this conclusion, showing that the work environment has a positive effect on employee performance through job satisfaction as an intervening variable.

Compensation Positively Affects Employee Performance Through Job Satisfaction as an Intervening Variable

Compensation (X2) significantly affects employee performance (Y) through job satisfaction (Z) as an intervening variable, with a t-statistic of 2.346 and a p-value of less than 0.05. Compensation is a strategic factor in human resource management that can significantly influence employee performance, both directly and through intervening variables such as job satisfaction. Employees feel satisfied when their compensation aligns with their expectations, workload, and contributions to the organization. High job satisfaction, in turn, enhances motivation, loyalty, and dedication, leading to improved performance. Conversely, inadequate compensation can lead to job dissatisfaction, which may decrease performance. Empirical studies show that competitive and well-managed compensation not only improves employee performance directly but also through increased job satisfaction. Employees who feel valued by fair compensation tend to have a positive perception of the organization, motivating them to work harder, demonstrate higher commitment, and achieve optimal results. This study also supports the research by

Kumalasari and Efendi (2022), which demonstrated that compensation positively affects employee performance through job satisfaction.

CONCLUSION

This study examined the impact of the work environment and compensation on employee performance at PDAM Kota Tarakan, with job satisfaction as an intervening variable. The results show that the work environment positively affects both employee performance and job satisfaction. Additionally, compensation was found to have a positive impact on employee performance and job satisfaction. Furthermore, job satisfaction mediates the relationship between both the work environment and compensation with employee performance. These findings support all of the hypotheses tested, demonstrating that creating a conducive work environment and offering fair compensation are crucial for enhancing employee performance and satisfaction.

The study also emphasizes the importance of fostering a positive work environment by improving communication, cooperation, and workplace conditions such as lighting, temperature, and training. Additionally, the research indicates that compensation, particularly allowances and incentives, plays a significant role in boosting employee performance. Job satisfaction, driven by factors like job quality, responsibility, and punctuality, further enhances employee performance. Therefore, organizations must prioritize both the work environment and compensation management to maximize productivity and job satisfaction, ultimately improving overall organizational performance.

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