

COMPENSATION'S IMPACT ON EMPLOYEE ENGAGEMENT AND PERFORMANCE

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ABSTRACT

Employee performance is one of the determining factors in a company's performance. Compensation, job satisfaction, and employee engagement are all factors that can influence employee performance. A coffee shop is a popular type of business in recent years. The rise in coffee shops and domestic coffee consumption over the last three years demonstrates this. The purpose of this study is to examine the effect of compensation on employee engagement and how it affects employees who work in high-end coffee shops. This study employs quantitative methods for causality research. The sampling technique used was accidental sampling, with 89 respondents from Tanaka coffee shops in Bandung Regency. The Structural Equation Model was used for statistical analysis in this study (SEM). According to the study's findings, compensation has a significant and positive effect on employee engagement because a higher salary increases employee engagement. Employee engagement has a significant and positive effect on employee performance because the employee pays more attention to the company; their performance will improve. Payment, on the other hand, has no significant impact on employee performance because low pay does not cause employees to perform poorly. Managers of coffee shops must pay attention to employee compensation and welfare in order to increase employee engagement and performance. on the other hand, it has no significant impact on employee performance because low pay does not cause employees to perform poorly. Managers of coffee shops must pay attention to employee compensation and welfare in order to increase employee engagement and performance. on the other hand, it has no significant impact on employee performance because low pay does not cause employees to perform poorly. Managers of coffee shops must pay attention to employee compensation and welfare in order to increase employee engagement and performance.

Keywords: coffee shops; compensation; employee engagement; employee performance.

INTRODUCTION

The increasingly fierce business competition demands the performance of employees in each company in order to predict the transformation of the internal and external environment. Human resource development is important to do so that companies can improve their performance. Meanwhile, a company cannot be separated from the existence of human resources in the company's operations (Michael, 2017). In order to achieve company progress, the ability in employees must be developed. Employees are one of the assets that are considered valuable and very meaningful as leaders and executors who carry out their duties in every

activity in the company (Lestari, 2015). So, human resource management in a company is very crucial.

When a company has good employee performance, it will support the company to be successful (Michael, 2017). Good HR management is an indicator of company success, one of several ways that can be applied is to increase the level of employee engagement with the company (Ardana et al., 2012). Employee performance reaching optimal points is the goal of the human resources division in order to realize company goals (Michael, 2017). In an organization, it is expected that there will be optimal performance from employees so that the achievement of organizational performance goes well. However, company performance is not only influenced by human resources in the company, but also influenced by other resources, such as work mechanisms, technology, equipment, materials.

Compensation is an acceptance by employees as a substitute for their service contributions to the company in providing rewards from employee contributions, and this is aHR management tasks in order to improve work performance and employee performance (Mathis & Jackson, 2006). Several previous studies conducted by Ardillah et al. (2020), Joyonegoro (2018), Widyastuti & Rahardja (2018), Sutoro (2019), Rizqy & Ngatno (2016), Ahmed & Ramzan (2014), Sukma et al. (2015), Achmad & Fitriansyah (2020), Sugiharti & Kiswoyo (2021), and Jean et al. (2017), revealed that compensation has a significant positive effect on employee performance. Logan et al. (2012) and Afriyie et al. (2020) put forward results that contradicted that there was no positive effect between compensation and employee performance.

Compensation is also an important factor in the management of human resources because it is directly related to the welfare of employees while working at the company, and in meeting the needs of employees (Handoko & Hani, 2008). Giving compensation is also an important aspect because if compensation is given correctly, it will determine whether employees feel comfortable and have produced good performance for the company or not (Putri & Wardhana, 2020). Several previous studies stated that there is a relationship between compensation and employee engagement (Widyawati et al., 2021, & Anitha, 2014). Meanwhile, the research by Filatrovi & Attiq (2020) and Claret & Harry (2014) shows that compensation has no effect on employee engagement.

Employees do work not only to get a salary, or promotion purposes, but to do work on behalf of the company where they work (Kruse, 2012). According to Luthans (2011), someone who does work assignments, and does work by expressing themselves emotionally, cognitively, and physically when doing work is a characteristic of individuals who have engagement. Widyastuti & Rahardja (2018), Suchayowati et al. (2020), Aisyah & Pradana (2020), Cintani & Noviansyah (2020), Joyonegoro (2018), Saxena & Srivastava (2015), revealed that there is a significant positive relationship between employee engagement and employee performance. However, according to Aulia et al. (2015), there is no positive relationship between employee engagement and employee performance.

The choice of the object of this study was motivated by a new trend, namely the development of cafe companies in Indonesia, so that more and more absorption of labor, especially the people around the location of the cafes. According to Dahwilani (2019) the number of coffee shops in Indonesia as of August 2019 reached more than 2,950 outlets, an increase of almost three times compared to 2016, which was only 1,000 outlets. On the one hand, this development has led to more absorption of new workers, on the other hand it can also cause new problems for café companies that have no experience in managing human resources. One of the problems that may arise is related to employee performance.

Based on interviews that were conducted with 3 employees at 3 different Tanaka café brands in Bandung Regency, for the employee engagement variable, of the 3 cafes, 2 of them stated that employees felt enthusiastic and enthusiastic about the work assigned to employees, and one outlet stated that there was feeling less enthusiastic when doing work due to certain factors, one of which is the work environment factor. According to the cafe employee, he feels less enthusiastic when there is a co-worker who is less cooperative or has bad behavior. It makes a feeling of discomfort while working. For the compensation variable, the two outlets state that the compensation and salary given have been adjusted to the workload given, but one outlet stated that the workload given was not in accordance with the compensation given and felt dissatisfied with the feedback from the company. Meanwhile for the employee performance variable, of the three outlets, one outlet stated that the level of attendance at work was quite good, but the performance at work was less than optimal. The other two outlets stated that in terms of attendance and performance, they were always in optimal condition

From the results of these interviews, it can be seen that the compensation or wages received by employees is commensurate with the workload given to employees, but on the other hand, of the three *outlets* who have been interviewed, there are employees in one outlet including those who think that the compensation or wages given are not in accordance with the workload given, but this does not affect the work motivation of these employees, as evidenced by a good level of attendance at work, and always complete each job. Employees feel that the salary or wages they are given is not the main thing, because they have other goals from their own work, namely to achieve dreams and desires in the future. On the other hand, if there are workers who see that their compensation is still inadequate or inadequate, then job satisfaction, motivation, and work performance can decrease dramatically (Handoko & Hani, 2008). On this basis.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. *Compensation*

An acceptance of workers who replace their service contributions to the company is the meaning of compensation (Mathis & Jackson, 2006). According to Rivai & Sagala (2010), compensation is all kinds of rewards to individuals as a trade-in in carrying out work tasks. According to Mobley (1982), appropriate compensation will improve employee performance, and a high or low level of compensation is a condition in which salary or wages are adjusted, based on the level of responsibility and the workload received by employees. Based on Rivai & Sagala (2010), the elements of compensation are indirect compensation, incentives, wages and salaries. Compensation indicators according to Milkovich & Newman (1999) are relational returns, facilities, benefits, incentives, salaries, and wages.

B. *Employee Engagement*

A concept of human resource management with the hope of making employees connected to the company is the notion of employee engagement. This connection or attachment means that workers do not only work for the company and also just carry out daily routine activities, but also have feelings of pleasure and pride when doing work, and feel comfortable in the work environment (Prihutami et al., 2015). One of the causes that cannot be duplicated or imitated by competitors is human beings, and it is a valuable resource asset for the company, if managed properly. So therefore, how to manage HR well for a company can make employees feel comfortable and have an attachment to the job and also the company where they work. Employees who already have an attachment to the company, do not do work just for a salary, or just for promotional purposes, but these employees do their work for the good name of the company (Kruse, 2012). Meanwhile, according to Schaufeli & Bakker (2004), the dimensions

of employee engagement are absorption, dedication, and vigor.

C. *Employee Performance*

The work results achieved by an employee when carrying out the tasks assigned to him, based on his sincerity, experience, and expertise are the meaning of performance (Hasibuan, 2014). Luthans (2011), stated that performance is the quality and quantity of the results provided, or the services provided by an employee who works for a company. Meanwhile, according to Armstrong (1999), performance is the result of the work of an employee's behavior in a job. An illustration of the level of achievement in the implementation of a policy in realizing the company's mission, vision and goals that have been designed and planned with a strategy in the company is the meaning of performance (Moeheriono, 2010). Employee performance can also be interpreted as achievement in a job performed by employees in a company where they work (Moeheriono, 2010). Good performance is needed for employees, in a company for the process of achieving good company performance too. However, a work performance for a company is not only influenced by human resources in that company, but also influenced by other resources, namely work mechanisms, technology, equipment, materials, and funds contained in a company (Wibowo, 2012)

According to Mahmudi (2005), the factors that influence performance consist of five factors, namely personal factors, team factors, system factors, and contextual factors. According to Mangkunegara (2001), the factors that influence performance are motivation, abilities, skills, and knowledge. While performance indicators according to Mathis & Jackson (2006), namely quantity, quality, ability to cooperate, attendance, and timeliness.

D. *Relations between Variables*

The relationship between variables is illustrated in the conceptual framework in Figure

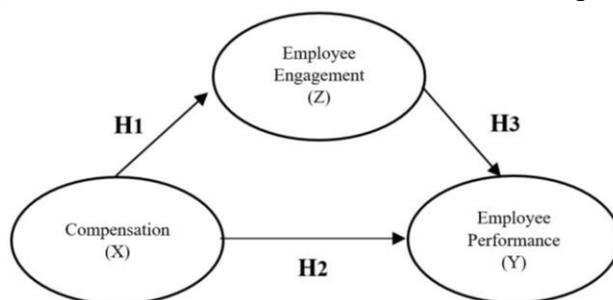


Figure 1. CONCEPTUAL FRAMEWORK

According to Handoko & Hani (2008), compensation is an important attribute for employee engagement, because with fair compensation employees can be motivated at work, so they are eager to improve their personal abilities. Employees will be more motivated by companies that have good compensation programs, including financial and non-financial compensation. Research conducted by Widyawati et al. (2021), and Anitha (2014) show that compensation variables can positively and significantly influence employee engagement variables. Meanwhile, Filatrovi & Attiq (2020) and Claret & Harry (2014), state that compensation has no effect on employee engagement.

H1: Compensation has a positive effect on employee engagement.

Based on Siagian (2015), it is natural for members of an organization to express a desire to receive rewards that are not only larger, but also more equitable. According to Rivai & Basri (2005), performance in carrying out its functions does not stand alone, but is related to various aspects such as job satisfaction and levels of reward, and is also influenced by skills, abilities,

and individual traits. Handoko & Hani (2008), stated that if a number of workers see that the rewards are insufficient, then aspects such as job satisfaction, motivation, and performance can decrease dramatically. Kasenda (2013) found that there is a positive relationship between rewards and employee performance. Ardillah et al. (2020), Joyonegoro (2018), Widyastuti & Rahardja (2018), Sutoro (2019), Rizqy (2016), Ahmed & Ramzan (2014), Sukma et al. (2015), Achmad & Fitriansyah, (2020), Sugiharti & Kiswoyo (2021), and Jean et al. (2017), also revealed that compensation has a positive and significant effect on employee performance. However, research conducted by Logahan et al. (2012), Afriyie et al. (2020), gave different results, and explained that there was no positive effect between compensation and employee performance.

H2: Compensation has a positive effect on employee performance.

Robinson et al. (2004) stated that engagement is a positive attitude that employees have towards the organization and the values of the company where they work. Based on Rustono & Akbary's research (2015), for Telkom Bandung Pension Fund workers there is a positive influence between employee engagement and employee performance. Ramadhan and Sembiring (2014) also show results that employee engagement has a positive effect on employee performance. Anitha (2014) shows that employee engagement has a positive impact on performance employee. Research conducted by Widyastuti & Rahardja (2018), Sucahyowati et al. (2020), Aisyah & Pradana (2020), Cintani & Noviansyah (2020), Joyonegoro (2018), Saxena & Srivastava (2015) revealed that there is a significant positive relationship between employee engagement and employee performance. However, Aulia et al. (2015) showed different research results, namely that there was no positive relationship between employee engagement and employee performance.

H3: Employee engagement has a positive effect on employee performance

RESEARCH METHODS

This study applies a quantitative method. The data source used is derived from primary data and uses online questionnaires. The calculation method used is a Likert scale of 1-5. The questionnaire can be downloaded from the link [research questionnaire](#). The sample used was Tanaka Café employees in Bandung Regency, totaling 89 employees. The questionnaire was distributed from 1 November 2021 to 16 November 2021, and obtained 89 respondents. Questionnaire distribution was carried out by visiting café outlets spread across Bandung Regency, then asking for the mobile number of one of the employees at the café outlet and asking for help in distributing the questionnaire to other employees. In addition, the link is also distributed by snowball via Whatsapp and Instagram.

The population of this study is the employees of the tanaka café company in Bandung regency. There were 15 café brands found from 89 respondents in this study sample, including the brands Talk Coffee, Janji Jiwa, Warunk Upnormal, Bukalagi Café, Belikopi, Telu Coffee, Akui Kopi, King Boba, Rangka Café and eatery, Kopi Kenangan, Chatime, Tea Break, Akara Café, Soe Coffee, and D'Gunungan Garden Café. Data were analyzed by Structural Equation Modeling (SEM) using SmartPLS 3.3

RESULTS AND DISCUSSION

A. *Description of Respondents*

In this study, respondents who worked at café companies were between 18 and 23 years

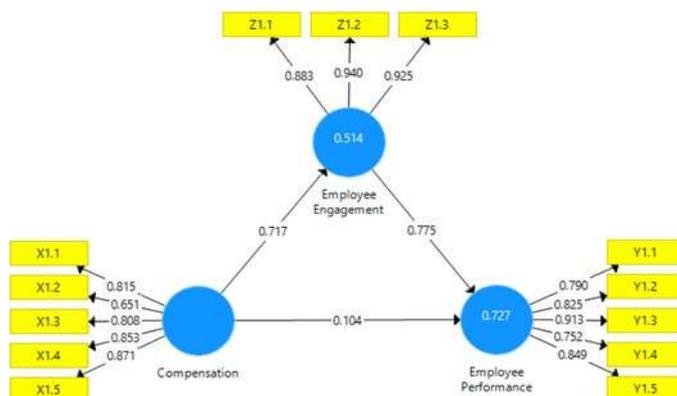
old. Employees with education level S1/D4 totaled 6 people (7%), education level D3 totaled 5 people (5%), D1 education level is 1 person (1%), SMA/SMK education level is 79 people (87%%). then, for employees with a working period of < 1 year, there are 39 employees (43%), for employees with a working period of ≥ 1 year, namely 43 employees (47%), then for employees who have worked for ≥ 2 years, there are 9 employees (10 %).

Three box method used in this study to assess the mean of respondents' answers where the lowest score is 1 and the highest is 5. As for the explanation of the dimensions of the employee engagement variable, the mean is 4.29, and the total is 389 for absorption, and the mean is 4.34. a total of 395 for dedication, then a mean of 4.28, and a total of 390 for vigor, along with a variable mean of 4.30, for a total of 1174, which is classified as a high category.

The mean and total indicators of compensation are a mean of 4.03, a total of 352 for relational returns, a mean of 3.47, and a total of 332 for facilities, a mean of 3.40, and a total of 310 for allowances, a mean of 3 .64, and a total of 316 for incentives, with a mean of 3.87, and a total of 367 for salaries & wages, with a mean and total of variables of 3.68 and 1676, which are in the high category. The employee performance indicators include the ability to cooperate with a mean & total of 4.51 & 411, attendance with a mean of 4.09 & a total of 372, punctuality with a mean of 4.29 & a total of 390, quantity with a mean of 4.13 & a total of 396, quality with a mean of 4.35 & a total of 396, then a mean of 4.09 & a total of 372 for attendance,

B. Convergent Validity

Convergent validity has the principle that various manifest variables (measuring indicators) have a correlation with each other (Ghozali, 2015). The value of convergent validity in SEM-PLS can be reviewed through the value of the loading factor for each construct indicator. The loading factor value must be greater than 0.7 for research with confirmatory properties, meanwhile for exploratory research the tolerated loading factor value is 0.6-0.7, but for the first step in developing a measurement scale, the loading factor value is 0.5 -0.6 is considered sufficient. The individual reflective measure is called valid if the measured latent variable loading factor value is 0.5. If the value < 0.5 the indicator is said to be invalid and must be removed from the model because it is identified that the indicator is not good enough to be used in measuring latent variables.



Source: SmartPLS Results 3.3 (2021, data processed)

Figure 2. MEASUREMENT MODEL TEST 1.

From Figure 2, all outer loading values for each indicator are between 0.6 and 0.7. Then the variables studied, namely compensation (X), employee engagement (Z), and employee performance (Y) have outer loading values between 0.6 to 0.7, so it can be said that all indicators have met the convergent validity criteria. If the outer loading has a high value, then the role of loading will be increasingly influential in interpreting the factor matrix and this

shows that the employee performance (Y) indicator is valid

C. Discriminant Validity

Discriminant validity can be done by calculating and comparing the value of the square root of average variance extracted (AVE). If the AVE root value is higher than the correlation value among the other latent variables, then discriminant validity can be said to have been achieved. Discriminant validity can be said to have been achieved if the AVE value is greater than 0.5.

Table 1.
DISCRIMINANT VALIDITY VARIABLE

| Variable | Compensati on (X) | Employee Engagement (Z) | Employee Performance (Y) |
|--------------------------|----------------------|----------------------------|-----------------------------|
| Compensation (X) | 0.803 | | |
| Employee Engagement (Z) | 0.717 | 0.896 | |
| Employee Performance (Y) | 0.660 | 0.849 | 0.828 |

Source: SmartPLS 3.3 (2021, data processed)

Table 1 illustrates if discriminant validity is recommended to have an AVE value > 0.5. Then the compensation construct (X) is 0.803 (root of 0.645), employee engagement (Z) is 0.896 (root of 0.840), employee performance (Y) is 0.828 (root of 0.686), has met the criteria of discriminant validity.

D. Cronbach's Alpha

Table 2.
CRONBACH'S ALPHA

| Variable | Cronbach's Alpha |
|--------------------------|------------------|
| Compensation (X) | 0.860 |
| Employee Engagement (Z) | 0.904 |
| Employee Performance (Y) | 0.884 |

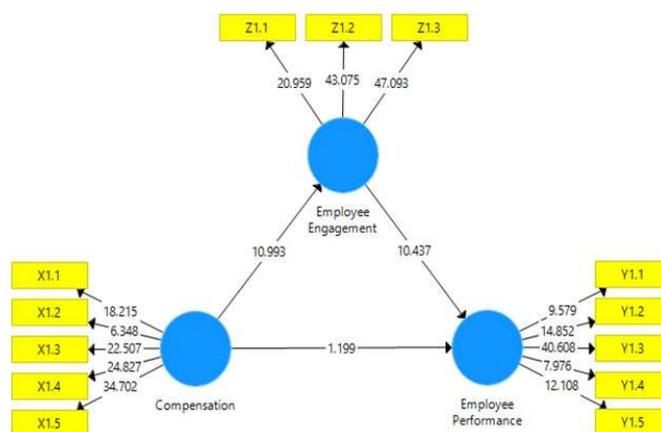
Source: SmartPLS 3.0 (2021, data processed)

The Cronbach's alpha value of the compensation variable (X) is 0.860, while for (Z), namely the employee engagement variable is 0.904, employee performance (Y) is 0.884. Cronbach's Alpha can be called good if it has a value of ≥ 0.7 . All variables have a Cronbach's alpha value greater than 0.7, this indicates that the variable model has reached the criteria of Cronbach's alpha or has strong or very reliable reliability.

E. Results of R-Square Analysis

The model of the influence of employee engagement and compensation on performance gives a value of 0.721 for Adjusted R-Square. The meaning of this value is that employee performance and compensation variables can explain 72.1% of the ups and downs of performance. While the remaining 27.9% is explained by other constructs not mentioned in this study. The model of the effect of compensation on employee engagement gives a value of 0.509 for the adjusted r-square. The meaning of this value is that the compensation variable is able to explain 50.9% of the ups and downs of employee engagement. While the remaining

49.1% is explained by other constructs not mentioned in this study.



Source: SmartPLS Results 3.3 (2021, data processed)

Figure 3. BOOTSTRAPPING MODEL MEASUREMENT TEST

F. Causality Test Results

Looking at the calculations using the PLS application and getting the inner model results for each construct which can be seen in Figure 3. In addition, the sig values that have been summarized can be seen in Table 3.

Table 3.
OUTPUT PATH COEFFICIENTS

| <i>Influence Variables Between</i> | <i>Original Sample</i> | <i>T-Statistics</i> | <i>Information</i> | <i>Results</i> |
|--|------------------------|---------------------|--------------------|--------------------------|
| Compensation (X) → Employee Engagement(Z) | 0.717 | 10.525 | ≥ 1.96 | hypothesis accepted |
| Compensation (X) → Employee performance(Y) | 0.104 | 1,237 | ≤ 1.96 | The hypothes is rejected |
| Employee Engagement(Z) → Employee Performance(Y) | 0.775 | 10,111 | ≥ 1.96 | hypothesis accepted |

Source: SmartPLS 3.3 (2021, data processed)

Table 3 explains that the t-statistic value for the effect of compensation on employee engagement is $10.525 \geq 1.96$. So the first hypothesis is accepted, and proves that the compensation variable has a significant effect on employee engagement. Meanwhile, the positive estimate coefficient is 0.717, so that the higher the employee engagement, the higher the employee performance, and vice versa.

The value of the t-statistic for the effect of compensation on employee performance is $1.237 \leq 1.96$, this explains that the second hypothesis is rejected, and proves that the compensation variable has no significant effect on employee performance. As for the positive estimate coefficient value of 0.104, which means that the compensation received does not have a significant effect on employee performance.

The magnitude of the t-statistical value of the effect of employee engagement on employee performance is $10.111 \geq 1.96$, this explains that the third hypothesis is accepted, and proves that the compensation variable has a significant effect on employee performance. Meanwhile, the positive estimate coefficient is 0.775, which means that employee engagement has a significant effect on employee performance.

G. Effect of Compensation on Employee Engagement

Based on the results of hypothesis testing, this study found that there is a positive and significant effect of compensation on employee engagement among employees who work at a tanaka café company in Bandung regency. The level of compensation received by employees who work in café companies has a significant effect on employee engagement. This can be interpreted that providing compensation to employees fairly will increase employee engagement, and this will increase their enthusiasm for work and their dedication to the company. Previous research that is relevant and strengthens the results of the first hypothesis in this study, namely Widyawati et al. (2021), & Anitha (2014), which proves that employee engagement is affected by compensation.

From the results obtained in this study, it can prove a systematic view of compensation and existing employee engagement. Research conducted by Widyawati et al. (2021), states that compensation has a strong influence on the level of engagement of Gen Y employees at PT "X", compensation indicators that can have an impact include salary, incentives, bonuses, promotion opportunities and recognition of inventions or innovations. These indicators can increase Gen Y employee engagement at PT "X".

The explanation above is reinforced by the results of questions and answers with several employees at the tanaka café in Bandung district who said that when they get a bonus when the café's customers are busy, they feel excited the next working day and are enthusiastic about working more than usual. Other employees said that if their work support facilities were upgraded, they would also feel an upgraded spirit as well. This shows that they have an attachment to the café where they work, due to their satisfaction with receiving compensation which they feel is in accordance with the workload given. This adds to their enthusiasm for work and maintains the quality of service to customers, by providing the best possible service to customers.

H. Effect of Compensation on Employee Performance

According to the results of the hypothesis test, there is no significant positive effect between compensation on employee performance for employees who work at the tanaka café company in Bandung Regency. The level of compensation received by employees who work in café companies does not have a significant effect on employee performance. This can be interpreted that employee performance is not affected by the provision of compensation to employees. While working, employees are not only salary oriented but also pay attention to how far they can develop in the company, because according to some employees, just working without increasing knowledge and skills is considered boring. This is not in accordance with the second hypothesis and supports the research of Logahan et al. (2012), and Afriyie et al. (2020),

This study proves the existing systematic view of employee compensation and performance. Afriyie et al. (2020), stated that employees/administrators are not interested in financial compensation, but are more interested in management's sensitivity to their needs. So compensation is not everything for employees, and it is not always a determinant of what employee performance will be like in the future.

The explanation above is reinforced by the results of question and answer questions with employees of one of the tanaka café brands in the Bandung district who said that they did not

see compensation as the only reciprocity they received for the work they did, but they expected new experience and knowledge about their field of work. . Some of them have the desire to open their own café brand one day armed with experience from working in the café. They hope that the company will be able to share experiences in running the café business from scratch until it is operational. There are also those who say that their salary is not enough to meet their needs for a month, but they can still stay at the workplace for more than 1 year, because there is more desire to gain experience from their workplace as well. This is used as a provision to start their own business someday.

I. The Effect of Employee Engagement on Employee Performance

The results of the analysis prove that employee engagement has a significant positive impact on employee performance at café tanaka employees in Bandung Regency. This can be interpreted that the level of employee engagement with the company where they work can affect the performance of employees at that company. Therefore, companies must also pay attention to employee engagement with the company as well as to obtain optimal performance from employees.

Some research that supports the hypothesis the third is Widyastuti & Rahardja (2018), Sucahyowati et al. (2020), Aisyah & Pradana (2020), Cintani & Noviansyah (2020), Joyonegoro (2018), Saxena & Srivastava, (2015) which prove that employee performance can be positively and significantly influenced by employee engagement. Thus it can be seen, if the level of employee engagement of employees working in café companies in the area is good, then employee performance will also increase.

As a support for these results, obtained the results of interviews with Some of the employees who work at cafes in Bandung Regency, among them are the emergence of a feeling of enthusiasm at work when they have work partners who are reliable and have the same way of thinking in completing their work. They also said that there were no absences in their work attendance. This shows that the quality of their work has increased because there are supportive work environment factors, which can then lead to optimal performance, because they already have an attachment to the company.

RESULTS AND DISCUSSION

Based on the results of research related to the effect of compensation on employee engagement and its impact on employee performance in cafe tanaka employees in Bandung district, it can be concluded that compensation has a significant positive effect on employee engagement. This proves that if the level of compensation given to employees working in café companies in Bandung district is higher, then employee engagement will also increase. Compensation does not have a significant positive effect on employee performance for employees who work at cafe tanaka companies in Bandung regency. This proves that the level of compensation received by employees who work in café companies does not have a significant effect on performance. Employee engagement has a positive and significant effect on employee performance. This shows that employee performance will increase if there is a good increase in employee engagement.

The limitation in conducting this research is the time in the process of obtaining data from the tanaka cafe in each sub-district in the Bandung Regency area, so that the data collection becomes uneven. Recommendations for further research that wants to do similar research, to increase the time period used to collect data. So that the results obtained can be more accurate and even. Further research may also involve the variable turnover intention which can be tested for its effect on the employee compensation given. So that it can be seen whether the compensation factor given will affect the number of employees who resign at a

company.

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