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# THE EFFECT OF COMPENSATION ON EMPLOYEE PERFORMANCE THROUGH INVOLVEMENT AND JOB SATISFACTION

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**Abstract.** This study aims to analyze the effect of compensation on employee performance, with involvement and job satisfaction serving as intervening variables at PT. Wijaya Karya Serang Panimbang. The research is grounded in the premise that fair and transparent compensation systems play a pivotal role in fostering employees' sense of belonging, engagement, and satisfaction, which ultimately influence overall performance outcomes. Employing a quantitative explanatory approach, the study collected primary data through a structured questionnaire distributed to company employees across operational and administrative divisions. The sampling technique used was proportional stratified random sampling, resulting in a total of 120 valid responses. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to examine both direct and indirect relationships among the study variables. The results indicate that compensation has a significant positive effect on employee involvement and job satisfaction, both of which, in turn, have a substantial impact on employee performance. Moreover, the mediating analysis reveals that involvement and job satisfaction partially mediate the relationship between compensation and performance, suggesting that financial and non-financial rewards enhance employees' intrinsic motivation and engagement in their roles. The findings highlight that an equitable compensation structure, coupled with a supportive organizational climate, contributes to higher productivity and commitment. The study offers theoretical contributions to human resource management literature and practical implications for developing performance-based compensation systems that sustain workforce motivation and organizational effectiveness.

**Keywords:** compensation; employee involvement; job satisfaction; employee performance; organizational behavior

## I. INTRODUCTION

Employee performance is a fundamental factor determining the competitiveness and sustainability of an organization, particularly in the construction industry where productivity, efficiency, and human reliability are key performance indicators. As one of Indonesia's leading state-owned construction companies, PT. Wijaya Karya (WIKA) Serang Panimbang plays a strategic role in national infrastructure development. Maintaining high employee performance is therefore essential to ensure project effectiveness and timely delivery [1]. In this context, compensation is widely recognized as a primary mechanism that influences employees' attitudes, engagement, and work outcomes [2]. Compensation encompasses all forms of rewards—financial and non-financial—that employees receive in return for their contributions to the organization [3]. When compensation is perceived as fair, transparent, and aligned with effort, employees experience greater satisfaction and commitment [4]. Conversely, inequitable compensation systems often lead to demotivation, absenteeism, and decreased performance [5]. In the competitive construction sector, where project demands are high and risks are substantial, compensation serves not only as a retention strategy but also as a driver of workforce productivity [6]. In addition to compensation, employee involvement defined as the degree to which individuals participate in decision-making and feel ownership over their work has emerged as a critical determinant of performance [7]. Research has shown that involvement increases job satisfaction, strengthens organizational commitment, and fosters innovative behavior [8]. When employees are actively engaged and empowered to contribute ideas, they are more likely to align personal goals with organizational objectives, thus enhancing performance outcomes [9].

Furthermore, job satisfaction functions as an emotional and attitudinal response to work experiences. High job satisfaction leads to greater loyalty, lower turnover intention, and improved task performance [10]. According to Herzberg's two-factor theory, satisfaction arises from intrinsic motivators such as recognition, responsibility, and achievement, rather than extrinsic rewards alone [11]. However, compensation and involvement are key antecedents of satisfaction, as fair rewards and participatory management enhance employees' psychological well-being and sense of belonging [12].

Empirical studies have consistently demonstrated that job satisfaction mediates the relationship between compensation and performance. Employees who perceive fair compensation tend to report higher satisfaction, which in turn translates into improved individual and team outcomes [13]. Similarly, involvement serves as a psychological bridge between compensation and performance, as active participation enhances motivation and perceived organizational support [14]. Based on these theoretical and empirical foundations, this study aims to analyze the effect of compensation on employee performance through involvement and job satisfaction as mediating variables in the context of PT. Wijaya Karya Serang Panimbang. The study provides theoretical contributions to human resource management literature by integrating motivational and behavioral frameworks, and practical implications for construction companies seeking to enhance performance through compensation management and employee engagement strategies [15].

Compensation represents one of the most critical elements in human resource management, encompassing all forms of financial and non-financial rewards provided to employees in exchange for their contribution [16]. According to Equity Theory, employees assess fairness in compensation relative to their inputs and outcomes; when compensation is perceived as equitable, satisfaction and performance tend to improve [17]. Fair compensation encourages commitment, reduces turnover, and increases motivation to achieve performance targets [18]. Studies in the construction industry also demonstrate that performance-based and transparent compensation systems directly enhance productivity and employee morale [19].

Compensation has been consistently identified as a primary antecedent of job satisfaction, which reflects an employee’s emotional response to their work environment [20]. The Two Factor Theory proposed by Herzberg explains that compensation serves as a hygiene factor its adequacy prevents dissatisfaction, but its excellence can foster satisfaction [21]. When employees perceive their remuneration as fair and aligned with their skills and responsibilities, they experience greater satisfaction and loyalty toward the organization. Conversely, perceived inequity in compensation systems often leads to demotivation and performance decline [22].

Employee involvement refers to the degree to which employees participate in decision-making, express opinions, and contribute to problem-solving within their organizations. The Job Characteristics Model suggests that autonomy and participation enhance psychological meaningfulness and satisfaction [23]. Research has shown that when employees feel involved in shaping work processes and decisions, their job satisfaction and commitment increase significantly. In construction environments, where teamwork and coordination are essential, involvement ensures that employees perceive their contributions as valuable and impactful [24].

Job satisfaction plays a pivotal role in determining employee performance outcomes. According to the Social Exchange Theory, satisfied employees reciprocate organizational support with positive behaviors such as diligence, cooperation, and higher productivity [25]. Satisfied employees tend to be more creative, consistent, and committed to their work, which leads to superior performance levels. Numerous studies across sectors have confirmed that job satisfaction is a key predictor of both individual and organizational success [16][19].

Involvement and job satisfaction act as psychological mediators between compensation and performance. When employees receive fair compensation, they become more engaged and satisfied, which subsequently drives better performance outcomes. The mediating framework aligns with Expectancy Theory, suggesting that employees exert effort when they believe that performance will lead to desirable rewards [18]. Compensation affects motivation not only directly but also indirectly through increased engagement and satisfaction, leading to sustainable performance improvements [20][24].

## II. RESEARCH METHODS

This study adopts a quantitative explanatory research design aimed at testing the causal relationships between compensation, employee involvement, job satisfaction, and employee performance at PT. Wijaya Karya Serang Panimbang. The quantitative approach was selected to obtain empirical evidence through measurable indicators and statistical analysis, enabling the evaluation of both direct and indirect effects. The research design aligns with the positivist paradigm, which emphasizes objectivity, reliability, and generalizability in behavioral research [26]. The population of this study consists of all employees working at PT. Wijaya Karya Serang Panimbang, totaling approximately 150 individuals, including staff, field engineers, and administrative personnel. Sampling was conducted using a proportionate stratified random sampling technique to ensure fair representation across departments. Based on the Slovin formula with a 5% margin of error, the required minimum sample size was 109 respondents. Data were collected through a structured questionnaire distributed directly to participants. The instrument employed a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), covering four latent constructs: compensation, involvement, job satisfaction, and performance. Each variable’s indicators were adapted from validated instruments in prior studies [27].

Before the main data collection, a pilot test was conducted on 25 respondents to assess the reliability and validity of the questionnaire. The Cronbach’s Alpha and Composite Reliability (CR) values exceeded 0.70, indicating satisfactory internal consistency. Subsequently, data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with the SmartPLS 4.0 software. This analytical technique is suitable for complex models involving multiple mediating variables and non-normal data distributions [28]. The PLS-SEM analysis consisted of two main stages: (1) Outer Model Evaluation, which tested convergent and discriminant validity through AVE, CR, and factor loadings; and (2) Inner Model Evaluation, which assessed hypothesis testing through path coefficients, $R^2$ values, and bootstrapping with 5,000 resamples [29].

This methodological framework allows simultaneous estimation of direct, indirect, and mediating relationships, ensuring robust conclusions regarding how compensation influences performance through involvement and job satisfaction. The chosen statistical approach strengthens the study's explanatory power and its contribution to the development of human resource management theory in the construction industry.

## III. RESULTS AND DISCUSSION

*Measurement Model (Outer Model) Evaluation*

Before testing the hypotheses, the measurement model was examined to ensure the validity and reliability of all constructs. The analysis results indicated that all outer loading values exceeded 0.70, confirming indicator reliability. The Composite Reliability (CR) values ranged from 0.881 to 0.936, and Average Variance Extracted (AVE) values were above 0.50 for each construct, demonstrating strong convergent validity [30]. The discriminant validity test using the Fornell–Larcker criterion and the HTMT ratio confirmed that the square root of the AVE of each construct was higher than its correlation with other constructs, and all HTMT values were below 0.90 [31]. These results verified that each latent variable compensation, involvement, job satisfaction, and performance was empirically distinct and reliable for subsequent structural analysis [32].

*Structural Model (Inner Model) Evaluation*

The structural model was evaluated using the coefficient of determination ($R^2$), path coefficients, and bootstrapping procedures with 5,000 samples. The $R^2$ for job satisfaction was 0.684, indicating that 68.4% of job satisfaction variance was explained by compensation and involvement. The $R^2$ for employee performance was 0.741, suggesting that 74.1% of the variance in performance was explained by compensation, involvement, and job satisfaction collectively [33]. The $Q^2$ predictive relevance value was 0.642, which exceeds 0, signifying that the model has high predictive capability. The Goodness of Fit (GoF) index also achieved a value above 0.60, confirming the overall robustness of the model in explaining the relationships among constructs [34].

*Hypothesis Testing and Path Coefficient Analysis*

The results of the bootstrapping analysis demonstrated that all proposed hypotheses were statistically supported, confirming the robustness of the model. The findings revealed that compensation had a significant positive effect on employee performance ($\beta = 0.211$, $p < 0.05$), indicating that fair and adequate compensation directly motivates employees to enhance their work outcomes. Moreover, compensation was found to have a strong positive relationship with job satisfaction ($\beta = 0.329$, $p < 0.001$), suggesting that when employees perceive equitable and transparent reward systems, their satisfaction and sense of fulfillment increase substantially. Similarly, employee involvement significantly influenced job satisfaction ($\beta = 0.366$, $p < 0.001$), highlighting that active participation and engagement in work processes contribute to a more positive emotional connection with the organization. In addition, job satisfaction exhibited a strong positive effect on employee performance ($\beta = 0.398$, $p < 0.001$), confirming its role as a key determinant of productivity and commitment. Finally, the analysis of the indirect effect showed that compensation influences performance through both involvement and job satisfaction, where the mediation was found to be significant but partial, indicating that compensation enhances performance not only directly but also indirectly by fostering higher levels of engagement and satisfaction among employees.

The findings demonstrate that compensation exerts both direct and indirect effects on performance through the mediating roles of involvement and satisfaction. This means that fair and consistent compensation not only motivates employees directly but also strengthens their sense of belonging and satisfaction, which ultimately enhances performance [35].

*The Mediating Role of Involvement and Job Satisfaction*

The mediation analysis using the bootstrapping indirect effect test showed that both involvement and job satisfaction partially mediate the relationship between compensation and performance. The indirect effect of compensation through involvement was ($\beta = 0.078$, $p < 0.05$), while through job satisfaction was ($\beta = 0.131$, $p < 0.01$). This indicates that compensation enhances employees' psychological engagement and satisfaction, which in turn improve their task performance [36].

These results are consistent with Expectancy Theory, which posits that motivation increases when employees believe their efforts will be rewarded appropriately [37]. Moreover, they align with previous findings suggesting that involvement and satisfaction act as psychological pathways translating organizational practices into performance outcomes [38].

The empirical evidence confirms that compensation, involvement, and job satisfaction are key determinants of employee performance in the construction sector. Compensation directly influences performance by fostering fairness and motivation, while its indirect impact through satisfaction and involvement strengthens emotional and behavioral commitment. These findings echo those of Rahardjo and Lestari [39], who found that perceived reward fairness and active engagement significantly enhance productivity in infrastructure projects. Furthermore, involvement plays a central role in this relationship. When employees are empowered to contribute to decision-making and problem-solving, they perceive greater autonomy and purpose, which in turn boosts satisfaction and performance [40]. Similarly, job satisfaction functions as a strong attitudinal driver that promotes positive work behaviors, consistent with Herzberg's two-factor theory and Social Exchange Theory, both emphasizing reciprocity between organizational support and employee effort.

Overall, the results underscore the importance of designing integrated compensation systems that balance monetary rewards with opportunities for participation, recognition, and professional development. PT. Wijaya Karya Serang Panimbang can strengthen its human resource strategies by linking compensation fairness with motivational and involvement mechanisms, thereby achieving higher levels of employee satisfaction and sustainable performance.

Theoretically, this research contributes to human resource management literature by bridging motivational and behavioral frameworks to explain performance improvement mechanisms in the construction industry. The use of PLS-SEM provides empirical validation for multi-path relationships and highlights the mediating roles of involvement and satisfaction. The findings reinforce that employee performance is not solely driven by external rewards but also by internal psychological states shaped through engagement and satisfaction [41]. This model can serve as a reference for future studies examining the interplay between compensation systems, intrinsic motivation, and performance across different industrial and organizational contexts [42].

From a managerial perspective, the results suggest that PT. Wijaya Karya Serang Panimbang and similar construction firms should adopt integrated compensation strategies that combine financial rewards (e.g., performance-based bonuses, project incentives) and non-financial rewards (e.g., recognition, career growth, training opportunities). Equitable compensation enhances not only satisfaction but also loyalty and retention among skilled employees. Management should also prioritize employee involvement programs, such as participatory project planning, feedback systems, and team-based performance reviews, to cultivate ownership and engagement. Simultaneously, fostering a culture of job satisfaction through recognition, empowerment, and psychological support will strengthen long-term performance sustainability [43]. By aligning compensation policies with engagement and satisfaction initiatives, organizations can create a high-performance work environment that supports innovation, safety compliance, and operational efficiency key factors in the construction sector's competitiveness.

This study is limited to one organizational context PT. Wijaya Karya Serang Panimbang and focuses solely on employees within the construction industry. Future research should expand the model by including variables such as leadership style, organizational commitment, or work climate as moderating factors to capture broader dynamics influencing performance. Additionally, employing longitudinal designs or mixed-method approaches could provide deeper insights into causal relationships and the long-term effects of compensation and engagement strategies on workforce behavior [44].

## IV. CONCLUSION

This study examined the influence of compensation on employee performance with involvement and job satisfaction as mediating variables at PT. Wijaya Karya Serang Panimbang, one of Indonesia's leading construction enterprises. The findings revealed that compensation significantly and positively affects both involvement and job satisfaction, which in turn enhance employee performance. The results also confirmed partial mediation, indicating that fair and transparent compensation indirectly improves performance by increasing engagement and satisfaction. The empirical evidence supports the integration of Equity Theory, Expectancy Theory, and Herzberg's Two-Factor Theory in explaining performance behavior. Employees who perceive their compensation as equitable and linked to performance outcomes tend to feel more valued, satisfied, and motivated to contribute productively. Moreover, involvement fosters psychological ownership and belonging, leading to stronger work commitment and overall organizational performance. In summary, the study concludes that a well-structured compensation system, when combined with a participative culture and attention to job satisfaction, creates a synergistic effect on employee performance within construction-based organizations.

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