

THE INFLUENCE OF COMPENSATION ON THE MOTIVATION AND PERFORMANCE OF MSMEs EMPLOYEES IN THE PRODUCTION OF SANAN TEMPEH CHIPS

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Abstract : The study aims to determine the influence of compensation on motivation and employee performance in the MSMEs production of sanan tempeh chips. This research is a type of explanatory research. The research method quantitatively uses Structural Equation Modeling (SEM) analysis with the Warp Partial Least Square (WarpPLS) approach. Primary data were obtained through in-depth interviews using questionnaires, and field observations while secondary data were obtained through literature studies from various related sources. Selected 60 samples with simple random sampling technique as respondents in this study. The results showed that compensation had a positive and significant effect on motivation. Compensation also has a positive and significant effect on employee performance. Then motivation has a positive and significant influence on employee performance.

Keywords: *Compensation, Motivation, Performance, MSMEs, Structural Equation Modelling (SEM), WarpPLS*

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INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are productive economic activities that stand alone and are not subsidiaries or branches of companies that are owned, controlled or become part of a large business. Micro, Small and Medium Enterprises (MSMEs) are a vital sectors that support the regional and state economies. Tambunan (2010) mentions the contribution of MSMEs in Indonesia, namely: (1) increasing employment opportunities, (2) income distribution, (3) rural economic development, (4) increasing non-oil and gas exports and (5) contributing to an increase in GDP. Indonesian Ministry of Cooperatives and SMEs (2019) stated that the number of MSME actors who reached 64 million business units contributed to

around 61% of Indonesia's Gross Domestic Product (GDP) in 2018. Based on data from the East Java Cooperatives and SMEs Office (2018), there are 9,782,262 MSME units in East Java. This amount provides a large enough potential to be developed. One of the cities that continues to develop the potential of MSMEs is Malang City. MSMEs in Malang City continue to grow and increase every year.

One of the MSMEs in Malang City that continues to grow and develop is the MSMEs in the Tempeh and Sanan Tempeh Chips Industry Center. This MSME is the center of the tempeh and tempeh chips industry which has existed for a long time and has been passed down from generation to generation. Almost every citizen is a tempeh chip maker and has a tempeh chips business.

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Despite having strategic development potential, MSMEs also have various problems that result in low performance and competitiveness. The results of a study by the APEC MHM Innovation Center on the global competitiveness of MSMEs in 13 countries including Indonesia, show that Indonesia is a country with MSMEs with low competitiveness (score 3.5 out of a score of 1.0-10.0) compared to other ASEAN countries such as Singapore, Malaysia, Thailand and Philippines (Susilo, 2012).

Qomariah (2016) in his research revealed that there are several common problems faced by MSMEs, namely the incompetence of Human Resources (HR) in management, weak access to capital, low understanding of the importance of the work environment, low work motivation and also unsupportive government regulations. Some of the general problems mentioned above have resulted in low performance and competitiveness of MSMEs.

Employee performance is a major problem in human resource management that must be considered so that the business unit can achieve their goals. The company's management of human resources is reflected in the performance of the employees produced and from the achievement of company goals. Performance is the result of work that can be achieved by a person or group of people in an organization both quantitatively and qualitatively, following their respective authorities and responsibilities to achieve organizational goals (Moehariono & Si, 2012).

Therefore, this study was conducted to see how the influence of compensation and motivation on the performance of MSME employees in the production of tempeh chips. This study aims to analyze the influence of compensation on employee work motivation, analyze the influence of work motivation on employee performance, analyze the influence of compensation on employee performance at SMEs producing tempeh chips.

RESEARCH METHODS

The type of research is an explanatory research, that aims to explain the relationship between variables through hypothesis testing (Solimun et al., 2017). This research is also descriptive in nature to explain how the variables of compensation and work motivation affect employee performance.

Research location was selected purposively in Sanan Tempeh Chips MSMEs located on Sanan St, RT.3, Purwantoro, Blimbing, Malang City and implemented in March 2021. The determination of the sample used a non-probability sampling method

with the slovin formula, so that 60 samples were selected as respondents. This research uses primary data, interviews using questionnaire and observation, while secondary data were obtained from several literature sources.

The collected data was tabulated and analyzed quantitatively using SEM (*Structural Equation Modeling*) method with Warp Partial Least Square (WarpPLS) approach.

The WarpPLS method contains three algorithms in the WarpPLS analysis: the outer model estimation algorithm, the inner model, and hypothesis testing. The steps for modeling structural equations with the WarpPLS approach, first carried out with WarpPLS, are to create a path diagram consisting of a structural model (inner model) and measurement model (outer model). Structural model explains the relationship between exogenous latent variables and endogenous latent variables. Measurement model is the relationship between manifest variables and latent variables.

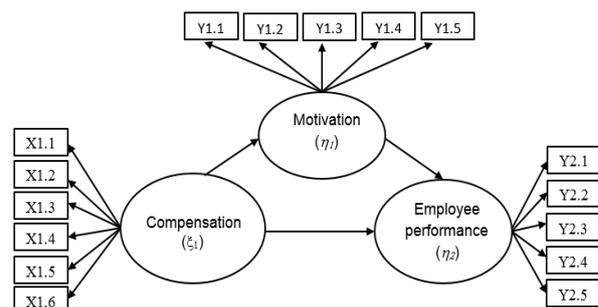


Figure 1. Path Diagram

Based on the framework of thought, the following hypothesis can be formulated:

- H1: Compensation has a significant effect on motivation
- H2: Motivation has a significant effect on employee performance
- H3: Compensation has a significant effect on employee performance

RESULTS AND DISCUSSION

Validity and Reliability Test

The reliability test is seen from the value of Composite Reliability and Cronbach's Alpha. If the composite reliability value is > 0.70 and Cronbach's Alpha value > 0.60 , it is considered to meet the criteria for reliability requirements. While validity test is seen from the value of Average Variances Extracted (AVE) and Discriminant Validity value. If

the AVE value is > 0.50 and the loading value of each indicator is greater than the cross loading value

of other latent variables, it is considered to meet the validity requirements (Solimun et al., 2017).

Table 1. Validity and reability test

Latent Variable	Indicators	Construct Validity Test			Composite Reliability	Cronbach's Alpha	AVE
		Significance Weight	<0,05 = Valid				
		Loading Value	P- Value	Conclusion			
Compensation (X1)	X1.1	0,827	<0.001	Valid	0,912	0,884	0,636
	X1.2	0,750	<0.001	Valid			
	X1.3	0,882	<0.001	Valid			
	X1.4	0,681	<0.001	Valid			
	X1.5	0,835	<0.001	Valid			
	X1.6	0,794	<0.001	Valid			
Motivation (Y1)	Y1.1	0,926	<0.001	Valid	0,921	0,891	0,703
	Y1.2	0,926	<0.001	Valid			
	Y1.3	0,855	<0.001	Valid			
	Y1.4	0,773	<0.001	Valid			
	Y1.5	0,685	<0.001	Valid			
Employee Performance (Y2)	Y2.1	0,687	<0.001	Valid	0,888	0,841	0,614
	Y2.2	0,848	<0.001	Valid			
	Y2.3	0,821	<0.001	Valid			
	Y2.4	0,792	<0.001	Valid			
	Y2.5	0,760	<0.001	Valid			

Based on the test result in table 1, the Composite Reliability value of the three latent variables has met the criteria, that the value is > 0.70. Cronbach's Alpha value on the three latent variables also met the criteria, that the value is > 0.60 and the AVE value on the three latent variables also met the criteria, that the value is > 0.50. Therefore, it can be said that the measurement model reflects the validity and reliability of the construct properly, so that it can be trusted to present research variables.

Model Fit and Quality Indices

Warp PLS analysis uses several parameters to measure the accuracy of the model (Goodness of Fit). Goodness of fit in question is an index and measure of the goodness of the relationship between latent variables (inner model) which is also related to its assumptions. The fit criteria for the model in table 2 are a rule of thumb, so they are not rigid or absolute, if one or 2 indicators of Goodness of Fit are declared good or ideal, then the model can still be used (Solimun et al., 2017). The results of the model accuracy test in this research are shown in table 2.

Table 2. Model fit and quality indices

No	Model Fit and Quality Indices	Fit Criteria	Analysis Result	Information
1	Average path coefficient (APC)	p <0.05	0,488 (P<0,001)	Good
2	Average R-squared (ARS)	p <0.05	0.485 (P<0.001)	Good
3	Average adjusted R-squared (AARS)	p <0.05	0.472 (P<0.001)	Good
4	Average block VIF (AVIF)	Acceptable if <= 5, Ideally <= 3.3	1,663	Ideal
5	Average full collinearity VIF (AFVIF)	Acceptable if <= 5, Ideally <= 3.3	2,114	Ideal
6	Tenenhaus GoF (GoF)	Small> = 0.1, Medium> = 0.25, Large> = 0.36	0,562	Large
7	Sympson's paradox ratio (SPR)	Acceptable if> = 0.7, Ideally = 1	1,000	Ideal
8	R-squared contribution ratio (RSCR)	Acceptable if> = 0.9, Ideally = 1	1,000	Ideal

9	Static suppression ratio (SSR)	Acceptable if $> = 0.7$	1,000	Ideal
10	Nonlinear bivariate causality direction ratio (NLBCDR)	Acceptable if $> = 0.7$	1,000	Ideal

Table 3. Hypothesis Testing

Hypothesis	Explanatory Variables	Response Variable	Path Coefficient	p-value	Information
H ₁	Compensation (X1)	Motivation (Y1)	0,644	<0.001	Significant
H ₂	Compensation (X1)	Employee performance (Y2)	0,510	<0.001	Significant
H ₃	Motivation (Y1)	Employee performance (Y2)	0,310	0.005	Significant

Significant at the 5% level (0.05)

Hypothesis test

Structural model analysis, which evaluates the coefficients or parameters, shows a causal relationship or the influence of one latent variable on another latent variable. A causal relationship can be declared insignificant if the p-value is less than 0.05 ($\alpha=5\%$). With the application of the WarpPLS 7.0 program, the estimation results of the path value of the structural model in this study were obtained. In summary, the results of the calculation of these coefficients are presented in table 3.

The Influence of Compensation on Employee Work Motivation in the MSMEs Production of Sanan Tempeh Chips

Based on data analysis and hypothesis testing, it shows that compensation has a significant effect on motivation. According to research conducted by Sudiardhita et al., (2018), compensation has a positive and significant effect on work motivation at PT. Bank XYZ (Persero) Tbk. This means that compensation has a positive effect on the work motivation of employees, if the compensation is increased, the work motivation of the employees will also increase. this research is also supported by previous research conducted by Rahardjo (2015) showed a significant positive relationship between work motivation and variables taken individually and collectively; learning and compensation organization.

The Influence of Compensation on Employee Performance in the MSMEs Production of Sanan Tempeh Chips

Data analysis and hypothesis testing show that compensation has a significant effect on employee performance. This is in accordance with research conducted by Kim & Jang (2020), in their research on The Effect of Increasing Employee Compensation on Firm Performance: Evidence From the Restaurant Industry. This study shows that an increase in employee compensation has a positive

effect in the short term. The study showed that increasing employee compensation could increase a restaurant's revenue growth for one year. Compensation has the greatest influence among other variables in influencing employee performance at MSMEs Production of Sanan Tempeh Chips.

The Influence of Motivation on Employee Performance in the MSMEs Production of Sanan Tempeh Chips

Data analysis and hypothesis testing show that motivation has a significant effect on employee performance. Following the opinion of Kasmir (2017), if the employee has a strong drive both from within and from outside himself, it will influence the individual or employee to do something better, which will ultimately result in good performance. This statement is also supported by Hasbullah & Rumansyah (2011) research results that motivation has a strong positive influence on employee performance. The motivational variables in this study were measured through physical needs, security needs, social needs, esteem needs, and self-actualization needs.

CONCLUSION

Based on research conducted on the influence of compensation on motivation and employee performance, this study has tested empirically, and theoretically with research results that compensation has a positive and significant effect on employee motivation and performance. Also the motivation variable has a positive and significant effect on employee performance.

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