

DOMINANT EFFECT BETWEEN COMPENSATION, LEADERSHIP AND ORGANIZATIONAL CULTURE ON EMPLOYEE PERFORMANCE IMPROVEMENT

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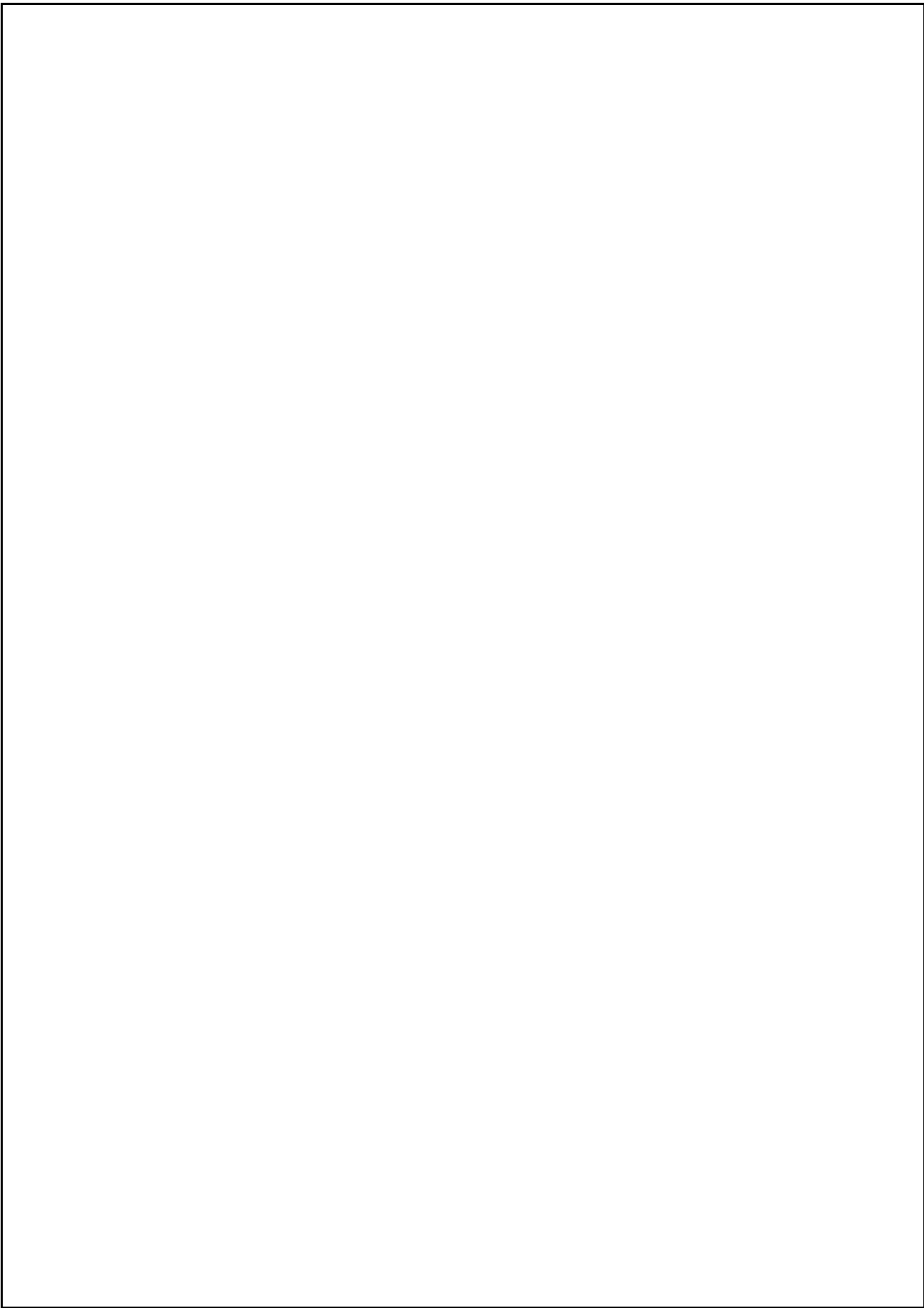
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Abstract: The performance of employees is closely related to compensation (total cash), organizational culture, and leadership. This research aims to identify the independent variables: compensation (X1), leadership (X2), and organizational culture (X3) by dependent variable of performance (Y). The result of multiple regression analysis had identified that organizational culture dominantly influenced the employee performance in the Integrated Office of Malang City.

Keywords: compensation, leadership, organizational culture, performance of employees

Previous studies have proved that there is an influence of compensation on employee performance, leadership on employee performance, and organizational culture on employee performance. Therefore, an identification of which variable is the most influential on employee performance in an organization. This research was conducted with the aim to identify the most dominant influence between compensation, leadership and organizational culture on employee performance at Integrated Office Malang.

A good performance in providing service in Integrated Office Malang is very necessary in order to in-

crease the Regional Income and Expenditure Budget (APBD) of Malang City. In 2012, the Regional Income and Expenditure Budget of Malang reached 1.261 trillions; in 2013, the Regional Income and Expenditure Budget of Malang reached 1.402 trillions; and in 2014 the Regional Income and Expenditure Budget of Malang reached 1.582 trillions (Sofi'i, 2016). This increase makes Malang city which has the second highest Regional Income and Expenditure Budget in East Java (Sofi'i, 2016). Increase in Regional Income and Expenditure Budget certainly cannot be separated from the performance of the Government of Malang in performing good public service. It has total of 16,387 employees according to Central Bureau of Statistics of East Java (2016). Employees can perform public service well in Integrated Office of Malang City if the government takes into account several factors, such as compensation, organizational culture, and leadership. The problems that arise in the Integrated Office shows how the Government of Malang City often lost the revenue due to poor performance of its employees, for example in providing relocation letter for the



public (Cahayani, 2013). This results in the loss of public trust, which leads to a decrease in Regional Income and Expenditure Budget itself.

The amount of compensation which is not proportional to the workload, organizational culture that is less supportive in the implementation of work, and leadership that is less assertive affect employee performance. The effect of compensation on employee performance is strongly supported by Hertati (2009); the results of her research show that compensation has a significant effect on employee performance in PT VICO. Furthermore, in the results of the study which was conducted by Hertati (2009) showed that compensation is positively correlated to the performance of PT VICO employees although other variables also play a role.

In addition to compensation, leadership within the organization is also crucial to improve employee performance. The leadership style within an organization at the sub-district level is crucial in determining how the employee performance in the agency, whether it increases or not (Tatulus, Mandey & Rares, 2015). In this case, the leadership style that is most closely related to employee performance is charismatic leadership style. This is in accordance with the results of the research which was conducted by Tatulus, et al (2015) in the Office of Tagulandang Sub-district Sitaro Regency, showing that leadership that is nurturing employees like "father" with "his son" is the most appropriate leadership to apply.

Furthermore, how does organizational culture affect the performance of employees within an organization? According to a study which was conducted by Wirda & Azra (2007), organizational culture will affect employee performance. The research which was conducted to employees at Padang State Polytechnic, Campus Unand Limau Manis-Padang, shows that organizational culture (represented by attention to details, result orientation, people orientation, group orientation, aggressiveness, and stability) will form causal effect on employee performance (which is represented by quality, quantity, time-based, need for supervision, interpersonal effect) (Wirda & Azra, 2007).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Employee Performance

Employee performance can be defined as the result of two aspects, namely ability/ skill and expertise (natural) owned by employees, and motivate employees to have a better performance (Osman-Gani, et al, 2013). Furthermore Osman-Gani, et al (2013) suggests that employee performance is strongly related to belief (religion) and spiritual.

Employee performance can be ensured through multi-objective capacities such as human, technology, organization, and level of institution (Ahmad, et al, 2015). Performance begins with top management, but the result is obtained from the lowest position, namely employee (Ahmad, et al, 2015). Good organizational performance also illustrates the extent to which the level of satisfaction of the employees themselves (Ahmad, et al, 2015). Ahmad et al (2015) in his research also added that employee performance is strongly influenced by supervisors, the support of organization for career development, as well as the development of human resource capacity owned by companies or organizations.

Employee performance indicates financial or nonfinancial outcome of employees, which is directly related to organizational performance and organizational success (Anitha, 2014). Anitha (2014) also suggests that employee engagement is very influential in shaping the performance of the employees themselves. Employee engagement is very influential on the indicators of employee performance, namely performance in work, task performance, organizational citizenship behavior, productivity, maximum effort, affective commitment, commitment to sustainability, level of work climate, and customer service (Anitha, 2014).

Compensation

Compensation is a form of reward given by a company for good performance that has been shown by employees in the hope that employees can improve their performance (Kuster & Canales, 2011). Furthermore, Kuster & Canales (2011) mentioned

how the compensation system can affect the performance of employees by differentiating the types of compensation into three, namely salary, commission and incentives.

Compensation is a form of motivational tool given by the company to employee in order to increase employee innovation; it is given in the form of stock compensation (portfolio, stock and options) and incentives (Sheikh, 2012). Sheikh (2012) defines that the compensation referred to in the improvement of employee innovation is related to a number of shares provided and the additional cash earned from the performance given (Sheikh, 2012).

Leadership

Leadership is how to influence others by using a name approach, the influence of charisma, high self-consideration, motivating employees by inspiring, and stimulating intellectuals that aims to enhance one's creativity (Cheung & Wong, 2011). Leadership can be done well and effectively, especially charismatic leadership; if it is mediated by the support for work and better relationship (Cheung & Wong, 2011). Furthermore, support for work and support in relationships will build followers' trust and loyalty (Cheung & Wong, 2011).

Leadership is a form of influence on followers or others in which the behavior of the leader transforms and inspires his followers to work on expectations as well as include or align personal interests for the good of the organization (Guay, 2013). Furthermore, Guay (2013) asserts that the early categories of transformational leadership are personal character, values, organizational environment, and external environment. To that end, transformational leadership is required to be more focused on person organization (character of people who fit the goals of the organization) (Guay, 2013). It means that the objectives and interests of a person are in accordance with the organizational goals.

Organizational Culture

Organizational culture is a set of values within the organization that includes five dimensions, namely future orientation, power distribution, avoid-

ing uncertainty, gender equality, humanitarian orientation (Gupta, 2011). Gupta (2011) explains the importance of conformity of social practice, social value, organizational practice, and organizational value, in the form of a superior organizational culture.

Organizational culture is intended as the values contained within the organization, which include the value of entrepreneurship (independence) and legitimacy, that can improve overall organizational performance (Lindkvist & Hjorth, 2015). The research which was conducted in studio or art museum in Sweden showed that entrepreneurial emphasis and legitimacy will make and organization able to run well (Lindkvist & Hjorth, 2015).

Organizational culture can also be interpreted as values disseminated within the organization and referred to as the work philosophy of employees (Moeliono Djokosantoso in Soedjono, 2005). Furthermore, organizational culture is defined as the values that guide human resources to deal with external problems and to adjust the integration of company, so that each member of the organization has to understand the existing values and how they should act and behave (Susanto in Soedjono, 2005). Organizational culture also serves as a distinction between an organization and the others (Robbins in Soedjono, 2005).

Research Hypothesis

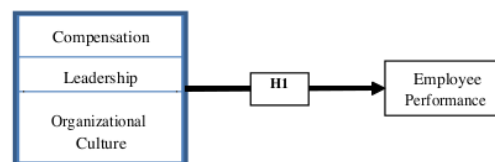


Diagram 1 Conceptual Framework

Based on the conceptual framework above, the hypotheses which can be developed from this research are as follows:

H0: Compensation, Leadership, and organizational culture have no significant effect on employee performance.

H1: Compensation, leadership and organizational culture have a significant effect on employee performance.

From the hypotheses that have been formulated, the definition of each variable is as follows: Compensation (X1) is a form of reward for employee performance in the hope of improvement of employee innovation and employee motivation from one period to the next period. In the public sector, compensation is divided into: salary, honorarium, family allowance (husband/ wife and child), job allowance and performance allowance. Leadership (X2) is a form of influence on others through name, charisma, high self-consideration, and motivating through inspirational stories, intellectual stimulation, so as to encourage the creativity of others and align the interests of employees with the interests of the organization.

Organizational culture (X3) is the values contained and disseminated within the organization, referred to as work philosophy of employees, agreed and shared, meets the elements of future orientation, authority distribution, avoiding uncertainty, gender equality, humanitarian orientation, social practice, social values, organizational practices and organizational values. Employee performance (Y) is the result of the skill and expertise of an employee; it is indicated from the job, task performance, productivity, maximum effort, affective commitment, commitment to sustainability, and level of work climate.

RESEARCH METHOD

This research is a quantitative research. It was conducted in Integrated Office of Malang City, located at Mayjend Sungkono Street, Arjowinangun Village, Kedungkandang Sub-District, Malang, East Java. The research data was collected through questionnaires distributed purposively to 172 employees or government apparatuses of Malang City at Department of Capital Investment and One-Door Integrated Service (DPMPTSP), Department of Population and Civil Registration, Department of Communication and Informatics, Department of Industry, Department of Labor, and Regional Tax

Service Agency (BP2D) in Integrated Office of Malang City.

The research instrument used in primary data collection is questionnaire. The questionnaire of this research is divided into two main parts, namely: the personal data of respondents and the influence on performance. The personal data of the respondents include name, age, position, work unit, education and marital status. The effect on performance consists of four components: compensation, leadership, organizational culture, and employee performance. This section aims to identify the real effects of compensation, leadership, and organizational culture on employee performance of Malang City Government in the Integrated Office.

In compensation, respondents are given five statements regarding salary, honorarium, and benefits gained when they work in the organization. In leadership, respondents are given seven statements regarding the leadership of superior in the organization in general. The next component is organizational culture. The statements presented on organizational culture are closely related to cultural values in terms of achieving targets, long-term goals and organizational goals. The last component in the questionnaire is employee performance, which consists of seven statements about job activity and work completion. To respond to four components of these variables, respondents should simply mark one of the alternative answers that have been provided, namely: (1) strongly disagree; (2) disagree; (3) do not know; (4) agree; (5) strongly agree.

After collecting the data, the researchers conducted validity and reliability test, classic assumption test (autocorrelation test, *multicollinearity* test, data normality test, and *heteroscedasticity* test), and multiple regression analysis by using SPSS software version 22. The result of validity and reliability test on the questionnaire showed valid and reliable results. Meanwhile, classic assumption test results show that there is no *multicollinearity* in the data, no correlation between the variables studied, no *heteroscedasticity*, and the data collected is normally distributed.

RESULTS AND DISCUSSIONS

The data which was obtained from 172 employees of the Government of Malang City in Integrated Office showed that 68 respondents (39.77%) work in Regional Tax Service Agency (BP2D), 26 respondents (15.20%) work in Communication and Informatics Department, 10 respondents (5.85%) work in Department of Labor, 25 respondents (14.62%) work in Department of Population and Civil Registration, 15 respondents (8.77%) work in Department of Industry, and 27 respondents (15.79%) work in Department of Capital Investment and One-Door Integrated Service (DPMPTSP). This means that most respondents are from the BP2D work unit. The respondents are the head of departments, the head of division, head of field, head of section, extension agents, archivists, treasurers, evaluators, web managers, institutions, and staff in the fields and sections in each work unit.

The respondents in this research are employees at Malang City's Government. They are the productive age to work and mostly are married. Based on age, the respondents can be grouped into four age groups, namely: 25-35 years old; 36-45 years old; 46-55 years old; and 56 years old and above. From the data which has been obtained, 28 respondents aged 25-35 years old, 52 respondents aged 36-45 years old, 81 respondents aged 46-55 years old, and the remaining 11 respondents aged 56 years old and above.

Because the respondents are at productive age, they have various length of work period. A total of 63 respondents have worked in their unit for less than or equal to 10 years; 57 respondents have a work period of 11 to 20 years; 44 respondents have worked in their unit for 21 to 30 years; and 8 other respondents even have worked in their unit for more than 30 years. Various length of work period of the respondents is also because some of them were newly appointed as staff or employees and many of them are transferred to work units in the Office of Integrated Malang currently.

Based on the last education, the respondents can be grouped into graduates of Senior High School or equivalent, Diploma I, Diploma II, Diploma III, Diploma IV, Bachelor, Master, and Doctor. From the data obtained, there are 40.12% of the respondents who are graduates of Senior High School or equivalent; 1.74% of the

respondents who are graduates of Diploma III; 0.58% of the respondents who are graduates of Diploma IV; 39.53% of the respondents who are bachelors; while the remaining 18.02% of the respondents who are masters.

Feasibility Test of Multiple Regression Model

Table 1 shows the results of model feasibility test using a regression tool, where R square (R^2) is 0.224. This result shows that the independent variables namely compensation (X1), leadership (X2) and organizational culture (X3) can predict the dependent variable, namely employee performance (Y), of 22.4%. Meanwhile, the remaining (78%) is influenced by other variables outside the variables studied in this research.

From the beginning, this study used one-tailed test, so that for the value of significance, it is necessary to multiply two. For example, the significance of compensation on the performance of employees in Integrated Office, 0.004×2 , is 0.008. Nevertheless, the results of t-test with one-tailed test in Table 2 have shown positive effect of independent variable (compensation, leadership and organizational culture) on the dependent variable (employee per-

Table 1 Results of Model Feasibility Test**5**
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.473 ^a	.224	.210	.25413
a. Predictors: (Constant), Average of Organizational Culture, Average of Compensation, Average of Leadership				

Source: Processed Primary Data, 2017**Table 2 Results of Regression Test: T-test****4**
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.317	.383		3.440	.001
Compensation	.184	.069	.186	2.650	.009
Leadership	.066	.043	.110	1.552	.122
10 organizational Culture	.410	.081	.357	5.061	.000
a. Dependent Variable: Average of Employee Performance					

Source: Processed Primary Data, 2017

formance). Independent variable (compensation and organizational culture) even significantly affects dependent variable (employee performance), unlike variable of leadership ($t = 1.552$ and $\text{sig} = 0.122$). Moreover, between variable of compensation, leadership, and organizational culture in Table 2, organizational culture is seen to have the most positive ($t = 5.061$), significant ($\text{sig} = 0.000$), and dominant effect on employee performance.

From results of multiple regression analysis (t-test) shown in Table 2, thus it can be said that H1 is accepted, while H0 is rejected. It means that compensation, leadership, and organizational culture have a significant effect on employee performance. Furthermore, from the results of multiple regression analysis (T-test) in Table 2, we also can identify that the compensation has a less significant effect on employee performance, while leadership has a significant effect on employee performance. Meanwhile, organizational culture has more dominant effect significance on employee performance.

This study identifies that compensation has a positive and significant effect on employee performance. Positive and significant influence of compensation on employee performance has also found in the research which was conducted by Dessler (2010), referring compensation as one of the tools

in motivating employees to achieve maximum performance. Furthermore, in this research, leadership has a positive, but not significant effect on employee performance. This is contrary to the research which has been conducted by Tatulus, et al (2015), stating that leadership can significantly improve employee performance in Tegalgandang Sub-district, Sitiro Regency. However, the research that has been done by Apriliani (2015) actually supports the results that show no significant influence of leadership on employee performance.

The final result of this study identifies that organizational culture has the most positive and significant influence on employee performance. The positive influence of organizational culture on employee performance is consistent with the research that has been conducted by Gupta (2011), explaining that a good work culture will lead to good overall organizational performance, including employee performance. The research which was conducted by Wirda and Azra (2007) discussing the role of organizational culture in improving organizational performance at Padang State Polytechnic also supports this result.

The results of this study imply the improvement of employee performance of Malang City's Government in Integrated Office. The Government of

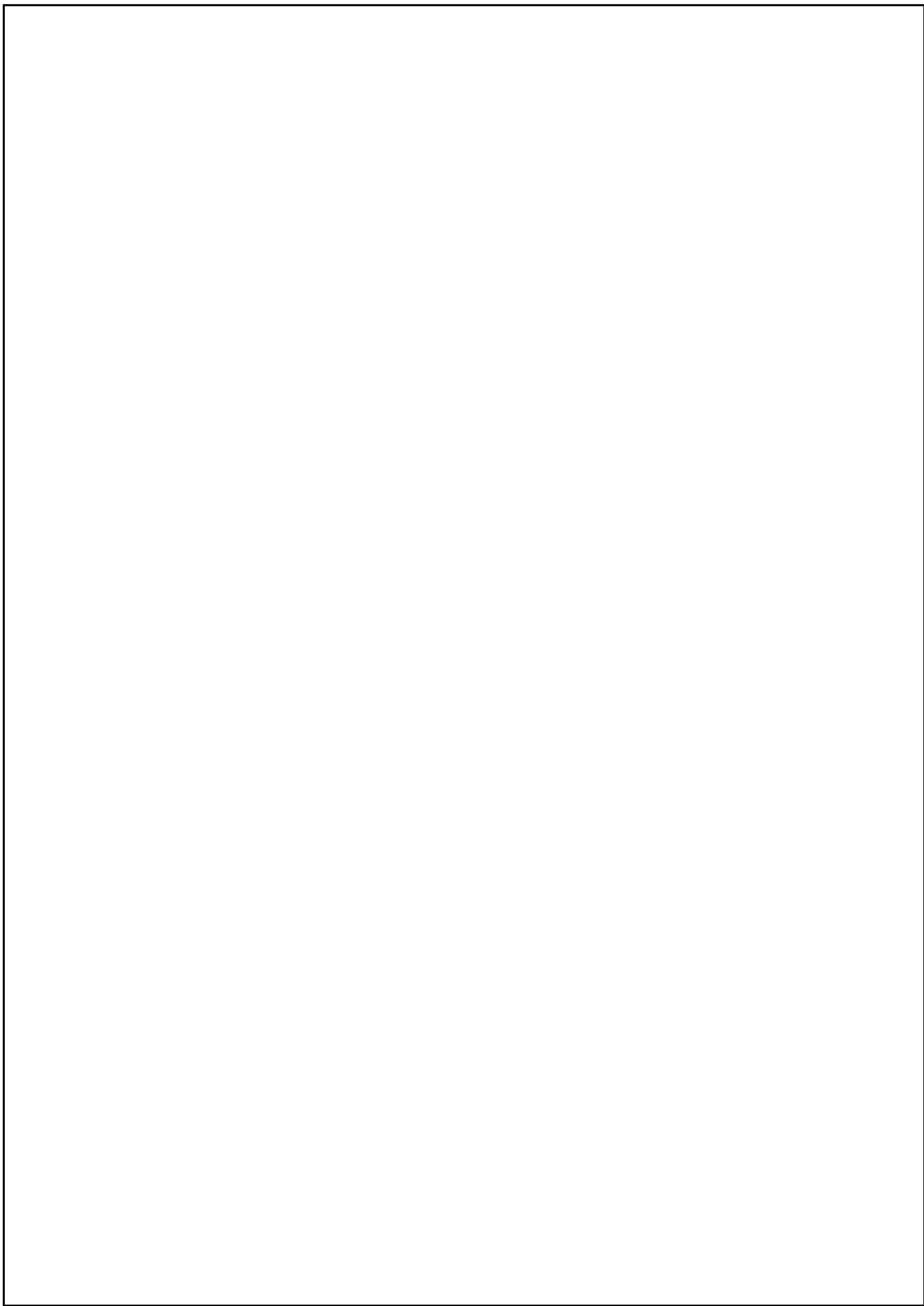
Malang City should maintain compensation in the form of salary and honorarium, as well as allowances to its employees and add the amount or details of compensation if necessary. It is because compensation can significantly affect the performance of employees from time to time. Similarly, organizational culture also has the most dominant influence on employee performance in Integrated Office; Malang City's Government needs to direct and instill social values in work culture, job description in detail, short-term and long-term goals of the organization, as well as targets to be achieved by the Government of Malang more intensively. By doing this, employees can do their duties and perform their function as a public servant better, in accordance with the standards and procedures set by the Government of Malang.

CONCLUSIONS

From the results of this research, it can be concluded that compensation gives a positive and significant impact on employee performance, while leadership has a positive but not significant effect on employee performance. Instead of these two variables, organizational culture has a positive and significant influence which is more dominant on improving employee performance of Malang City's Government in Integrated Office.

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