

UDC 331

**THE EFFECT OF PERFORMANCE APPRAISAL AND COMPENSATION
AGAINST WORK MOTIVATION: A STUDY ON PERMANENT EMPLOYEES
OF PERUSAHAAN DAERAH AIR MINUM OF MALANG CITY, INDONESIA**

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ABSTRACT

The importance of employees for the survival and progress of a company obliges the company to support all the needs of employees, one of which is motivation. Employee motivation must be adjusted to the objectives of the company. However, employees also have individual goals, so companies need to pay attention to the continuity between individual employee goals and company goals; a gap between the two will certainly not be beneficial for the company. Increasing employee motivation in work can be done by conducting performance appraisal and compensation. Performance appraisal results become a reference for employees to be more motivated in improving their performance. Appropriate compensation will increase employee motivation and compensation is a reflection of the value of employees. This study aims to examine the partial and simultaneous significant influence of performance appraisal and compensation to work motivation of employees. This study is explanatory research with a quantitative approach. The population in this study was all permanent employees of PDAM in Malang City, Indonesia. The samples were 74 employees obtained from calculations using the Slovin formula. Data was obtained directly from respondents with questionnaires as the research instrument. Data analysis employed descriptive statistical data analysis and multiple linear regression analysis using SPSS version 21.

KEY WORDS

Effective performance appraisal, compensation, employee, work, motivation.

Maximizing performance is a major issue raised by companies in this globalization era. Globalization has demanded every company to maximize its performance to survive in an increasingly tight business competition. Maximum company performance can be realized if its employees also perform well. Employees are the key as they hold a major role in running the company. Optimal employee performance must be supported by adequate facilities and infrastructure as well as compensation; in addition, qualified employees with high work motivation are needed so the company can achieve its goals well.

Employees are important for a company, and as such, the company has an obligation to support all the needs of employees, one of which is the need for motivation. Motivation, according to Thoha (2011), is one element in one's behavior and is also a psychological process. Different abilities and employee performance also depend on the employees' desire to work or their motivation. Motivation of employees must be adjusted to the objectives of the company. However, employees also have individual goals, so companies need to pay attention to the continuity between individual employee goals and company goals; a gap between the two will certainly not be beneficial for the company.

Employee improvement in work can be done by the company by providing fair and decent compensation. Performance appraisal according to Mangkunegara (2013) is an assessment on the work carried out on employees. According to Ruddin (2005) in Iqbal *et al.* (2013), performance appraisal may seem simple, yet many studies prove that performance appraisal is often used by companies to provide feedback and identify strengths and weaknesses of employees. Developing an effective and efficient appraisal system is a high priority for management. Performance appraisal is also closely related to improving employee performance and the results can be used by the company as a basis for increasing

position, increasing compensation, mutation, and termination of work (Bangun, 2012).

According to Zainal (2015), the results of performance appraisal can show whether the employee has met the demands of the company, both in terms of quality and quantity. Information in evaluating employee performance is a reflection of whether or not the company develops. Assessing one's performance accurately is one of the difficulties in performance appraisal for it to be called comprehensive. The nature and method of evaluating performance of employees depends on how employees are viewed and treated in the company.

The results of performance appraisal are used as a basis for controlling employee behavior, making decisions related to increase in salary, giving bonuses, placing employees in appropriate positions, and knowing the training and development needs by the employees. In addition, according to Zainal (2015), performance appraisal is also used as a way to motivate employees. The results of performance appraisal will be a reference for employees; if the results are not satisfying enough, then employees are expected to be more motivated in improving their performance. Basically, a good performance appraisal aims to make employees more aware of their role and to motivate them so they are satisfied with the work and the company—this will help them to contribute better to the company.

Another factor that influences employee motivation is compensation. Compensation is what employees receive for the services they provide to the company, either in the form of physical work or non-physical one. Attractive compensation is used as a way for the company to retain qualified employees. Giving compensation, according to Hasibuan (2013), has objectives such as cooperation, job satisfaction, effective procurement, motivation, employee stability, discipline, and obedience to trade unions and government. Compensation is important for employees as individuals because the amount reflects the value of their work. Employees contribute both their energy and knowledge and the company respects them in the form of compensation. According to Bangun (2012), compensation is classified into two, namely financial compensation and non-financial compensation. Financial compensation includes basic salary and benefits as well as all remuneration in the form of materials, while non-financial compensation is all remuneration not in the form of money but rather psychological and physical factors in the organizational environment.

Every company has its own way to assess employees and different ways of providing compensation in an effort to motivate employees. This also happens to PDAM of Malang City. PDAM is Badan Usaha Milik Daerah (BUMD)¹ that provides drinking water facilities in Malang City. As one of the companies engaged in the public service sector, PDAM is required to follow technological development for better service to the community. The population growth of Malang City results in an increase in the need for clean water; to meet these needs, PDAM of Malang City is expected to be able to increase its production capacity. This can be seen in Figure 1.



Figure 1 – An Increase in Pipelines and Customers (Source: “Statistik”, n.d.)

Figure 1 shows an increase in the number of customers using clean water provided by

¹ Regional-Owned Enterprise.

PDAM of Malang City. To increase the production capacity of PDAM, it must improve the performance of its employees. The results of performance appraisal can be used as a reference in determining the reliability level of an employee. Based on the performance appraisal, compensation is given to improve the work motivation of employees of Malang City PDAM, helping them to be more loyal to the company. Loyal employees will work well and are willing to achieve company goals. This appraisal performance and compensation is coupled with the desire of Malang City PDAM to fulfill the national strategic issue on clean water as a basic human need.

Based on the description, the objectives of this study are: (1) revealing the general description of performance appraisal effectiveness, compensation suitability, and employee work motivation; (2) examining the effect of performance appraisal effectiveness on employee work motivation; (3) examining the effect of compensation suitability on employee work motivation; (4) examining the effect of performance appraisal effectiveness and compensation suitability on employee work motivation.

The results of this study are expected to be useful for the next researchers and can increase knowledge in the field of Human Resource Management (HRM), especially in the field of performance appraisal, compensation, and work motivation.

LITERATURE REVIEW

Performance appraisal is a formal system for evaluating performance related to individual or team tasks; the system is important because it reflects directly the organization's strategic plan (Mondy, 2008). Mangkunegara (2013) defines performance appraisal as a process of assessment on employee performance that is carried out systematically by the company leader based on the work assigned to employees. Tampubolon (2012) states that performance appraisal is important because it is a way to provide feedback about work, maintain relationships within the organization, and train and develop employees. Therefore, developing an effective and efficient performance appraisal system is a high priority for management.

According to Zainal (2015), for performance appraisal to be effective, the instrument used must meet the following conditions:

- Reliability, performance measures must be consistent. If there are two assessors evaluating the same employee, then they must come to the same conclusion regarding the quality of the employee;
- Relevance, performance measures must be linked to the real output of an activity that is logically possible;
- Sensitivity, some measures must be able to reflect the difference between the appearance of high and low values. These appearances must be able to distinguish carefully about differences in performance;
- Practically, the criteria must be measurable, and the lack of data collection is not too disturbing or inefficient.

Compensation according to Sikula (1981) in Mangkunegara (2013) is a gift in the form of money and is given to employees as an appreciation of their services. Wages and salaries are used to regulate financial transaction between the employer and employees. According to Dessler (2011), employee compensation includes all payments paid to employees and arises from their work relationships. The provision of compensation must meet the principles of fair and proper and meet the financial justice of employees.

According to Zainal (2015), compensation components consist of:

- Salary, remuneration in the form of money received by employees as a consequence of their position as an employee who contributes their energy and thought in achieving the company's goals;
- Wages, direct benefits given to employees based on working hours, the amount of goods produced or the number of services provided. The amount of wages can vary depending on the output produced;

- Incentives, direct rewards paid to employees because their performance exceeds the prescribed standard. Incentives are another form of direct wages other than wages and salaries as fixed compensation, commonly called performance based compensation (pay for performance plan);
- Indirect compensation (fringe benefit), additional compensation provided based on company policy towards all employees as an effort to improve the welfare of employees.

Motivation according to Bangun (2012) is defined as an action to influence others to behave regularly. Motivation is one of two functions that shape employee performance; for managers motivation is an important concern because it is closely related to the success of employees, organizations, or communities in achieving their goals (Gomes, 2003). According to Mangkunegara (2013), work motivation is a condition that moves employees to be able to achieve goals related to the work environment. Companies that pay attention to the principles of fairness and justice in the provision of compensation and are able to provide compensation in accordance with the expectations of employees will find an increase in employee morale and motivation.

Based on the literature review above, the hypothesis model in this study is illustrated as in Figure 2.

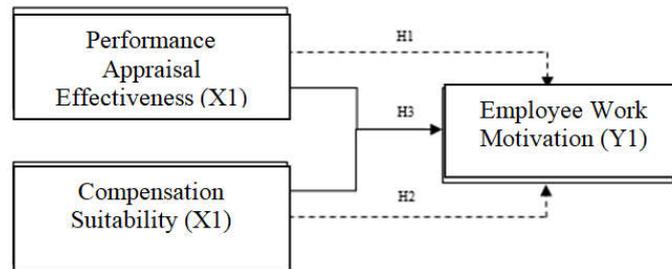


Figure 2 – Hypothesis model

H1: There is a significant effect of performance appraisal effectiveness (X_1) on employee work motivation (Y_1).

H2: There is a significant effect of compensation suitability (X_2) on employee work motivation (Y_1).

H3: There is a significant effect of performance appraisal effectiveness (X_1) and compensation suitability (X_2) on employee work motivation (Y_1).

METHODS OF RESEARCH

This study is explanatory research with a quantitative approach. The study site was Malang City PDAM located on Jalan Terusan Danau Sentani 100 Malang, Indonesia. The population in this study was permanent employees of Malang City PDAM as many as 365 people. The study did not include non-permanent employees because performance appraisal was only done for permanent employees. There were 79 permanent employees as respondents in this study. The sampling technique in this study was non-probability sampling with incidental sampling. There were two data sources, primary and secondary data sources. Primary data was obtained from the questionnaires and secondary data was obtained from companies and books.

The data analysis consisted of descriptive statistical analysis and inferential statistical analysis using multiple linear regression analysis employing SPSS 21 software for Windows.

RESULTS AND DISCUSSION

The following are the results of the primary data analysis consisting of the effect of performance appraisal effectiveness on employee motivation, compensation suitability on

employee motivation, and performance appraisal effectiveness and compensation suitability on employee motivation. Five questionnaires were lost, and then data analysis was done only on 74 questionnaires.

Table 1 – Data Analysis Results on the Effect of Performance Appraisal Effectiveness on Employee Motivation

Independent Variable	Dependent Variable	t-count	t-table	Significance
Performance Appraisal Effectiveness	Employee Motivation	0.584	1.994	0.561

Source: Results of Analysis on Primary Data, 2018.

Table 2 – Data Analysis Results on the Effect of Compensation Suitability on Employee Motivation

Independent Variable	Dependent Variable	t-count	t-table	Significance
Compensation Suitability	Employee Motivation	3.992	1.994	0.000

Source: Results of Analysis on Primary Data, 2018

Table 3 – Data Analysis Results on the Effect of Performance Appraisal Effectiveness and Compensation Suitability on Employee Motivation

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	37.642	2	18.821	13.019	0.000
Residual	102.642	71	1.446		
Total	140.284	73			

Source: Results of Analysis on Primary Data, 2018.

Based on the results of the analysis and hypotheses testing, it can be seen that partially the performance appraisal effectiveness, which consists of four indicators, i.e. reliability, relevance, sensitivity, and practicality (Zainal, 2015), does not significantly affect employee work motivation. The conclusion is based on hypotheses testing through t-test, resulting in a t-count of 0.584, while t-table is 1.994 and a significance value of 0.584 greater than the α -value of 0.05. Thus, it can be concluded that partially performance appraisal effectiveness does not have a significant effect on employee work motivation.

This result is contrary to the theory by Gomes (2003) that performance appraisal has the purpose of motivating employees so employees can make improvements to their performance in the future. However, this study proves that partially performance appraisal effectiveness does not have a significant effect on employee work motivation. Developing an effective performance appraisal has and will continue to be a high priority for management. Performance appraisal is not the goal itself, but it is a tool to influence performance. If the result is not significant, it could be that Malang City PDAM does not have an effective performance appraisal system to increase the work motivation of its employees.

Based on the results of the analysis and hypotheses testing, it can be seen that partially the compensation suitability, consisting of three indicators, i.e. salary, incentives, and benefits (Zainal, 2015), as well as facilities, affect the work motivation of Malang City PDAM employees. The conclusion is based on hypotheses testing through t-test, resulting in a t-count value of 3.992, while the t-table is 1.994, and the significance value is 0.000 smaller than the α -value at 0.05. These results indicate that partially and significantly the compensation suitability affects employee motivation.

This result supports the results of the previous study by Mangkunegara (2013) that compensation given to employees influences the level of employee motivation. Work motivation affects whether the minimum life needs of employees can be fulfilled or not. Based on primary data and test results, it can be concluded that compensation suitability has a significant effect on the work motivation of employees of Malang City PDAM.

Based on the results of the analysis and hypotheses testing, it can be seen that simultaneously performance appraisal effectiveness (X_1) consisting of four indicators, i.e. reliability, relevance, sensitivity, and practicality (Zainal, 2015), as well as compensation (X_2) consisting of three indicators consisting of three indicators, i.e. salary, incentives, and

benefits (Zainal, 2015), as well as facilities, affect employee work motivation (Y_1). The conclusion is based on hypotheses testing through the F-test, resulting in an F-table value of 3.126 and F-count of 13.019. This means the F-count value $>$ F-table, or $13.019 > 3.126$ and the significance of F ($0.000 < \alpha (0.05)$). Thus, it can be concluded that performance appraisal effectiveness (X_1) and compensation suitability (X_2) have a significant effect on employee work motivation (Y_1). The performance appraisal effectiveness variable does not significantly affect work motivation, but in combination with compensation suitability, the two variables significantly affect employee work motivation.

The results of hypothesis testing are supported by Zainal (2015) that the purpose of performance appraisal in companies is basically to provide good compensation as well as to develop and increase employee motivation. According to Kadarisman (2012), a person's work motivation is influenced by several factors, one of which is an adequate compensation. Adequate compensation is the most effective tool for companies to increase the work motivation of their employees. According to Zainal (2015), the purpose of an effective performance appraisal is basically to cover information about the level of employee work motivation in a certain period, to encourage responsibility of employees; to determine the effectiveness of HR policies, such as selection, recruitment, training, and job analysis as components of interdependence among HR functions, and so forth. In addition, work motivation should also be influenced by performance appraisal effectiveness. If the performance appraisal system has fulfilled the effective assessment requirements, then employees will be indirectly motivated to improve their performance. Performance appraisal that has met the effectiveness requirements of an assessment system will provide certainty of what efforts must be made by an employee in order to provide maximum contribution to the company.

CONCLUSION AND SUGGESTIONS

Based on findings and discussion, the following conclusions are drawn:

- The results of the t-test on the effect of performance appraisal effectiveness (X_1) on employee work motivation (Y_1) show a t-count value of 0.584 and t-table value of 1.994 or t-count $<$ t-table and a significance value of $0.584 > \alpha$ of 0.05. From the results, it can be concluded that partially the performance appraisal effectiveness (X_1) has no significant effect on employee work motivation (Y_1).
- The results of the t-test on the effect of compensation suitability (X_2) on employee work motivation (Y_1) show a t-count value of 3.992 and t-table value of 1.994 or t-count $>$ t-table and a significance value of $0.000 < \alpha$ of 0.05. From the results, it can be concluded that partially compensation suitability (X_2) significantly affect employee work motivation (Y_1).
- The results of the F-test show an F-count value of 13.019 and an F-table of 3.126 or F-count $>$ F-table and a significance value of 0.000. From the results, it can be concluded that simultaneously performance appraisal effectiveness (X_1) and compensation suitability (X_2) significantly affect employee work motivation (Y_1).

Based on the results of the analysis and discussion, the following recommendations are given for the benefit of Malang City PDAM:

- Malang City PDAM is expected to ascertain that employee performance appraisal applied in the company is in accordance with the goals of the company and is relevant with each employee's position. This can be done by reviewing the performance appraisal system that has been applied to the company.
- Malang City PDAM is expected to ascertain that the salary given is in accordance with employee expectations and the bonus given is comparable to the overtime to support employee work. This can be done by recalculating the salary level and giving bonuses to suit the expectations of employees.
- It is expected that Malang City PDAM can improve its performance appraisal effectiveness; the results of the study show that the variable has no significant effect on employee motivation. Increasing the effectiveness of performance appraisal can

be done by evaluating and compiling systematic performance appraisal guidelines, explaining or disseminating performance appraisal guidelines to all employees, mapping employee competencies, and making work plans per individual.

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