

# **The Implication of Financial Compensation and Performance Appraisal System to Job Satisfaction And Motivation also Employee Performance In PT Pupuk Kalimantan Timur Indonesia**

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**ABSTRACT :** *The purpose of this study is to analyze and prove the influence of the system of financial compensation and performance appraisal on job satisfaction and job motivation and its implications on the performance of employee. The research type is explanatory research. The research population is all employees of PT Pupuk Kalimantan Timur. The sample in this research is 140 employees. The sampling technique is ladder population of proportional with amount of population in every stratum. The data is analyzed by using the approach of Smart Partial Least Square (SmartPLS). The research result indicates that financial compensation has an effect on job satisfaction. Financial compensation does not have an effect on job motivation. Performance appraisal system of employee has an effect on job satisfaction. Performance appraisal system of employee has an effect on job motivation. Financial compensation does not have an effect on employee performance. Performance appraisal system of employee does not have an effect on employee performance. Job satisfaction has an effect on job motivation of employee. Job satisfaction does not have an effect on employee performance. Motivation has an effect on employee performance. Performance appraisal system of employee is stronger in influencing employee performance than financial compensation. Performance appraisal system of employee that is applied by PT Pupuk Kalimantan Timur can change the job climate in the company.*

**KEYWORDS :** *Financial Compensation, Performance Appraisal System, Job Satisfaction, Job Motivation, Employee Performance*

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## **I. INTRODUCTION**

Problems related to the employee performance in PT Pupuk Kalimantan Timur (PT Pupuk Kaltim) are caused by the policy of employee payment system. Before a change of payment system up to the year of 2008, the applied payment system in PT Pupuk Kaltim was based on year of service and faction. This payment system is presented in a table that connects between employee year of service and employee faction. Longer year of service causes the increasing of salary faction or basic salary of employee. The usage of this table system gives unfavorable impact on employee performance, where there are some employees owning high year of service but do not have performance improvement. The second problem related to the employee performance in PT Pupuk Kaltim is the problem of performance appraisal system of employee. Performance appraisal system of employee that is used to assess employee is still very qualitative. Performance appraisal system of this employee is used to assess employee performance once a year, by each coming date of engaging in pertinent employee. The assessors are the direct supervisor and indirect supervisor. Performance appraisal system of the employee performance has correlation with the system of increasing the employee basic salary that is done every three years. In application, this system cannot differentiate between good employee and unfavorable one, as well as competent employee and incompetent one. It happens because the increasing of the employee salary is dominantly determined by the accumulation of year of service, than the employee performance and competence. Besides that, the performance appraisal system of employee performance cannot measure employee performance and competence.

Based on the study done by PT Pupuk Kaltim, if these salary and performance appraisal system of employee job are continued, the employee job will decrease and so will the company performance. It is because the table system of salary cannot differentiate between good employee and unfavorable one. Even the employee who gets promotion in position, does not get increment in the salary. Besides, the result of observation shows that some employees complain the table system of salary that cannot support them to work better.

Existence of problems related to salary system and performance appraisal system of employee job affects the employee performance. Therefore, in 2009, PT Pupuk Kaltim started to apply “Manajemen Sumber Daya Manusia Berbasis Kompetensi” (MSDM-BK) or Competency Based Human Resource Management (CBHRM), as a substitution of personnel management system that has been applied by PT Pupuk Kaltim since 1977 when this company was founded.

The application of the CBHRM is started by applying the salary system of the employee performance and competence to replace the table system. The applications of CBHRM system in PT Pupuk Kaltim has changed the system that is related to human resource management. It aims to increase company performance by improving compensation system and performance appraisal system of employee. In the future, it is expected to improve employee job and company performance. This real step also supports the theory of Gibson (2000). There are three factors that have effects on performance, those are (1) Individual factor: ability, skill, family background, job experience, social level, and demography; (2) Psychological factor: perception, role, attitude, personality, motivation, and job satisfaction; (3) Organizational factor: organization chart, work design, leadership, rewards system.

In this research, job satisfaction and job motivation that represent individual factor are chosen to be analyzed in influencing the employee performance. Various empirical studies indicate that satisfaction influences employee performance, as the result of the research of Gohari et al., (2013), Muslih (2012), Umar (2011), and Funmilola (2013).

The influence of job motivation to performance is according to Goal Setting Theory by Suprihanto (1987). It is explained that someone’s merit or performance depends on his motivation to the work. The higher the motivation, the higher the performance. On the contrary, the lower the motivation, the lower the performance. This result is also in line with the opinion of Robbins (2003) and Mitcheel (1998). Robbins (2003) explains that employee performance represent function of interaction between motivation and ability. Meanwhile, Mitcheel (1998) creates concept model that explains how does motivation influence employee performance and behavior. This theory is supported by the empirical study by Deikme (2013), Muslih (2012), Tjahjono, et al. (2008), and Umar (2011).

By paying attention to the motivation and job satisfaction of employee, the employee performance will increase progressively along with the increasing of company performance. Besides, motivation and job satisfaction are also influenced by competence system and performance appraisal system applied by the company. In PT Pupuk Kaltim, there are various opinions by the employees to the human resources system.

Based on the explanation about the change of human resource management system above, it can be concluded that problems which often emerge are related to the management of human resource or research gap in PT Pupuk Kaltim. For example, changing some human resource management systems in PT Pupuk Kaltim can improve employee motivation, satisfaction, and performance.

Because of the research gap to reach the optimal of employee job related to the change of human resource system in PT Pupuk Kaltim, we need to analyze the problem that includes the variables of financial compensation, performance appraisal system of employee, employee motivation, and employee satisfaction, and employee performance.

## **II. LITERATURE REVIEW AND HYPOTHESES**

### **2.1. Employee Performance**

Mathis and Jackson (2006) express that performance is basically what is done or not by the employee. The elements of employee performance as usual cover the quality of result, accuracy of time, attendance, and cooperate ability. Levinson in Marwansyah (2010) describes performance as someone merit in doing his responsibility/ job. Performance reflects how well employee fulfills the conditions of work.

Gibson (2000) writes that there are three factors that have effects to performance, those are (1) Individual factor: ability, skill, family background, job experience, social level and demography; (2) Psychological factor: perception, role, attitude, personality, motivation, and job satisfaction; (3) Organizational factor: organization chart, work design, leadership, rewards system.

Vroom (1964) shows that performance is the level of how far the success of someone in finishing his work, usually called as “level of performance”. Someone who has high level of performance is called as productive person or high performance person. On the contrary, someone who cannot reach standard is called as unproductive person or low performance person.

Gomes (2003) tells that there are some indicators that become measurement in the performance appraisal of employee performance, those are quantity of work, quality of work, job knowledge, creativeness, cooperation, dependability, initiative, and personal qualities.

## **2.2. Job Satisfaction**

Luthans (2006) says “job satisfaction is a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experience” Furthermore, Luthans (2006) explains that the factors that influence job satisfaction are the work itself, salary, opportunity of promotion, observation, team work, and friends.

According to Robbins and Timothy (2008), there are five factors that make a person is satisfied with his or her job. These factors are mentally challenging work, equitable rewards, supportive working conditions, supportive colleagues, and personality-job fit.

Mathis and Jackson (2006) write “job satisfaction is a positive emotional state resulting from one’s job experience”. The dimension of job satisfaction are the work itself, salary, confession, supervision, good cooperation with friends, and also opportunity to expand.

## **2.3. Job Motivation**

Luthans (2006) defines motivation as process started by physiological deficiencies that control behavior for the purpose or incentive. Robbins and Timothy (2008) tells that motivation is a process that determines intensity, direction, and individual assiduity in efforting the aim and target of organization.

## **2.4. Compensation**

Dessler (2003) says that compensation means all remunerations received by workers or arise from their job. Mondy (2008) interprets compensation as the total of all accepted rewards received by employee as a change of services that have been given to organization.

According to Schuller, Jackson, and Werner (2011), total compensation is appreciation of money and the other thing which are given to worker. Schuller et al., (2011) use total compensation term interpreted as activity where organization assess worker contribution to be commuted with monetary reward and non-monetary pursuant based on organization’s ability and legal rule.

According to Schuller et al., (2011), in principle compensation can be divided into intrinsic compensation and extrinsic compensation. Intrinsic compensation is compensation accepted by employees for themselves. Extrinsic compensation covers direct compensation, indirect compensation, and non-monetary compensation. Direct compensation includes basic salary, allowance, and incentive. Indirect compensations are social security, insurance, allowance for retirement, leave, and vacation. While non-monetary compensation covers security guarantee, good job environment, self development, career flexibility, acknowledgement, and praise.

Mondy (2008) tells that the form of compensation that is given by company to employee can be divided in two parts as follows.

1. Financial compensation
  - a. Direct financial compensation
  - b. Indirect Financial compensationThis form of compensation includes:
  - 1) Insurance plans
  - 2) Social assistance benefits
  - 3) Paid absences.
2. Nonfinancial Compensation  
This form of compensation includes:
  - a. The job
  - b. Job environment.

## **2.5. Performance Appraisal System**

There are some definitions about performance appraisal:

1. Sikula (1981): Appraisal is the process of estimating or judging the value, excellence, qualities or status of some object, person, or thing.
2. Sikula (1981): Employee appraisal is the systematic evaluation of a worker’s job performance and potential for development.
3. Yoder (1980): Personnel appraisals refer to the formal procedures used in working organizations to evaluate the personalities and contributions and potentials of group members.
4. Appraisal job merit is a systematic appraisal to employee by its superior or some other experts that understand the execution of work done by the employee or position (Tiffin, 1947).
5. The appraisal of performance is resulted from employees merit reached according to their duty at specified period (Bernadin and Russell, 1993).

One of the performance appraisal methods is 360 degrees appraisal. According to the research of Duggill, it comes from United States army forces in about 1970.

According to Robbins and Timothy (2008), the 360-degree appraisal is an appraisal device that seeks performance feedback from such sources as oneself, superiors, peers, team members, customers, and suppliers.

## **2.6. Research Hypothesis**

1. Financial compensation has an effect on employee job satisfaction.
2. Financial compensation has an effect on employee job motivation.
3. Performance appraisal system of employee has an effect on employee job satisfaction.
4. Performance appraisal system of employee has an effect on employee job motivation.
5. Financial compensation has an effect on employee performance.
6. Performance appraisal system of employee has an effect on employee performance.
7. Job satisfaction has an effect on employee job motivation.
8. Job satisfaction has an effect on employee performance.
9. Job motivation has an effect on employee performance.

## **III. METHOD OF RESEARCH**

This type of research is explanatory research. The research population is all employees of PT Pupuk Kaltim, with the sample of 140 employees. The sampling technique is proportional ladder population with amount of population in every stratum.

The determinations of the exogenous and endogenous variables in this research are as follows.

1. Financial compensation ( $X_1$ )  
The variable of financial compensation is measured by 5 indicators adopted from theory of financial compensation by Mondy (2008) and Raymond et al., (2008), as follows:
  - a. Salary
  - b. Religious holiday allowance
  - c. Official travel expenses
  - d. Performance incentive
  - e. Increase system of basic salary
2. Performance appraisal system ( $X_2$ )  
The performance appraisal system of employee is used to measure attainment of employee competence and employee performance. In this research, performance appraisal system is adopted from the theory of Robbins and Timothy (2008) that is divided in two as follows:
  - a. Performance appraisal of employee using 360 degrees appraisal system.
  - b. Performance appraisal of Key Performance Indicator (Individual KPI)
3. Job satisfaction ( $Y_1$ )  
Job satisfaction is measured based on the theory of Luthans (2006) that uses four indicators as follows:
  - a. Job satisfaction based on the job itself.
  - b. Job satisfaction based on job observation.
  - c. Job satisfaction based on friends.
  - d. Job satisfaction based on work/ job condition.
4. Job motivation ( $Y_2$ )  
Job motivation in this research is measured based on the theory of Herzberg (1964) related with motivation factors. The variable of job motivation is measured by using five indicators as follows:
  - a. Merit
  - b. Recognition
  - c. The work itself
  - d. Responsibility
  - e. Advancement
5. Employee performance ( $Y_3$ )  
Performance in this research is measured based on the theory of Gomes (2003), that is poured into eight indicators as follows:
  - a. Quantity of work.
  - b. Quality of work.
  - c. Job knowledge.
  - d. Creativeness.
  - e. Cooperation.
  - f. Dependability.
  - g. Initiative.
  - h. Personnel qualities.

In this research, the data is analyzed by using Partial Least Square (PLS) approach. PLS is a type of Structural Equation Modeling (SEM) based on component or variant.

**IV. RESULT OF RESEARCH**

**4.1. Goodness of Fit Model**

Predictive relevance ( $Q^2$ ) goodness of fits of the model in PLS analysis, is measured based on the coefficient value of determination ( $R^2$ ).

**Table 1. Coefficient value of determination ( $R^2$ )**

| No | Variable               | $R^2$ |
|----|------------------------|-------|
| 1  | Job satisfaction       | 0,419 |
| 2  | Job motivation         | 0,137 |
| 3  | Employees' performance | 0,615 |

From Table 1, we determine the level of predictive relevance ( $Q^2$ ) as follows :

$$Q^2 = 1 - (1 - 0,419)(1 - 0,137)(1 - 0,615) = 0,8070$$

The result of the predictive relevance indicates that the model is good, that is having the ability of prediction equal to 80,70 %. It can be said that the model can be accepted, meaning there is accordance between the model and the data.

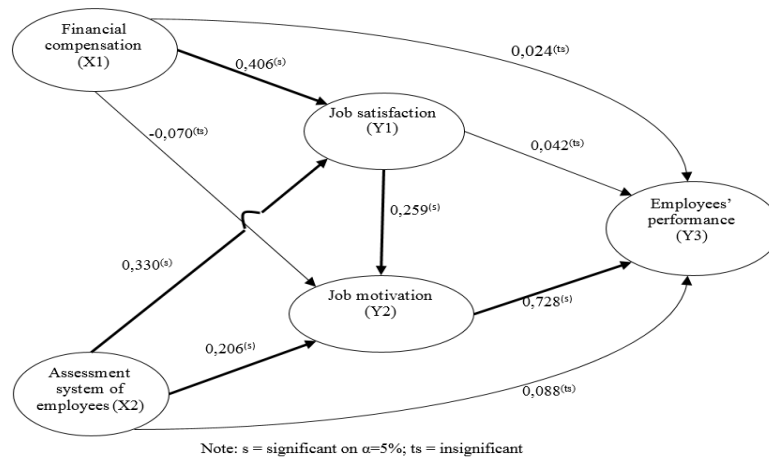
**4.2. Examination of Hypothesis**

Resampling bootstrap method is used in examining PLS analysis. The test statistic uses critical ratio.

**Table 2. Result of Examination of Hypothesis**

| Relation among variables     |                      | Coefficient | p-value | Note          |
|------------------------------|----------------------|-------------|---------|---------------|
| Financial compensation       | Job satisfaction     | 0,406       | 0,000   | Significant   |
| Financial compensation       | Job motivation       | -0,070      | 0,684   | Insignificant |
| Performance appraisal system | Job satisfaction     | 0,330       | 0,001   | Significant   |
| Performance appraisal system | Job motivation       | 0,206       | 0,023   | Significant   |
| Financial compensation       | Employee performance | 0,024       | 0,777   | Insignificant |
| Performance appraisal system | Employee performance | 0,088       | 0,168   | Insignificant |
| Job satisfaction             | Job motivation       | 0,259       | 0,010   | Significant   |
| Job satisfaction             | Employee performance | 0,042       | 0,623   | Insignificant |
| Job motivation               | Employee performance | 0,728       | 0,000   | Significant   |

The result of the examination is also presented in the form of graph in Figure 1.



**Figure 1. Diagram of Hypothesis Examination Result**

Based on Table 2 and Figure 1, the results of the hypothesis examination are as follows.

1. Financial compensation has an effect on job satisfaction of the employee of PT Pupuk Kaltim. PLS analysis coefficient equals to 0,406 and  $p = 0,000$  (significant). Thereby, the hypothesis is accepted. Path coefficient with positive sign indicates that the higher financial compensation which they accept, the higher job satisfaction of all employees of PT Pupuk Kaltim.
2. Financial compensation does not have an effect on employee job motivation of PT Pupuk Kaltim. PLS analysis coefficient equals to - 0,070 and  $p = 0,684$  (insignificant). Thereby, the hypothesis is rejected. This matter indicates that employee job motivation of PT Pupuk Kaltim does not affect directly by high or low financial compensation they accept.
3. Performance appraisal system of employee has an effect on employee job satisfaction of PT Pupuk Kaltim. PLS analysis coefficient equals to 0,330 and  $p = 0,001$  (significant). Thereby, the hypothesis is accepted. Path coefficient with positive sign indicates that better employee performance appraisal system of PT Pupuk Kaltim will result in better job satisfaction.
4. Performance appraisal system of employee has an effect on employee job motivation of PT Pupuk Kaltim. PLS analysis coefficient equals to 0,206 and  $p = 0,023$  (significant). Thereby, the hypothesis is accepted. Path coefficient with positive sign indicates that better employee performance appraisal system of PT Pupuk Kaltim will result in better job motivation.
5. Financial compensation of employee does not affect employee performance of PT Pupuk Kaltim. PLS analysis coefficient equals to 0,024 and  $p = 0,777$  (insignificant). Thereby, the hypothesis is rejected. This matter indicates that employee performance of PT Pupuk Kaltim is not affected directly by high or low of financial compensation they accept.
6. Performance appraisal system of employee does not affect employee performance of PT Pupuk Kaltim. PLS analysis coefficient equals to 0,088 and  $p = 0,168$  (insignificant). Thereby, the hypothesis is rejected. This matter indicates that employee performance of PT Pupuk Kaltim is not affected directly by high or low of performance appraisal system they accept.
7. Job satisfaction has an effect on employees job motivation of PT Pupuk Kaltim. PLS analysis coefficient equals to 0,259 and  $p = 0,010$  (significant). Thereby, the hypothesis is accepted. Path coefficient with positive sign indicates that the more satisfied the employee of PT Pupuk Kaltim, the better the job motivation.
8. Job satisfaction does not have an effect on employee performance of PT Pupuk Kaltim. PLS analysis coefficient equals to 0,042 and  $p = 0,623$  (insignificant). Thereby, the hypothesis is rejected. This matter indicates that employee performance of PT Pupuk Kaltim is not affected directly by the satisfaction in working.
9. Job motivation has an effect on employee performance of PT Pupuk Kaltim. PLS analysis coefficient equals to 0,728 and  $p = 0,000$  (significant). Thereby, the hypothesis is accepted. Path coefficient with positive sign indicates that the higher the employee job motivation of PT Pupuk Kaltim, the better the employee performance.

## **V. DISCUSSION**

### **5.1. Influence of Financial Compensation to Job Satisfaction**

The research result indicates that financial compensation has an effect on employee job satisfaction of PT Pupuk Kaltim. It means that the higher the financial compensation they accepted, the employee job satisfaction will increase. On the contrary, if financial compensation is low, the employee job satisfaction will decrease.

This research result is supported by the theory of Robins (2003). Job satisfaction is common attitude of someone's work, which show difference between amounts of appreciation accepted by worker with amount of which they believe ought to be accepted.

Result of this research is also supported by the theory of Davis and Newstrom (1998), that job satisfaction shows the suitability between expectation to the work and reward from the work. Djati and Khusaini (2003) write that the compensation/ remuneration can improve job merit and job satisfaction.

Result of this research is also supported by Gohari et al., (2013), Nawab and Bhatti (2011), Ruvendi (2005), Umar (2011), Hanggara and Supartha (2014). They indicate that financial compensation variable has an effect on job satisfaction.

From the explanation above, it can be concluded that the result of this research indicates that there is equality between former research and theory. Financial compensation accepted by employee has an impact on the level of job satisfaction, for both private company and government company. These matters need important attention, so that financial compensation given by the company must be adapted from the ability of the company. If a company cannot give financial compensation as the demand from the employee, there must be a good communication and information from the company.

Financial compensation that is most dominant is related to the religious holiday allowance, known as *Tunjangan Hari Raya (THR)*. THR is given by company when celebrating Eid Mubarak. By considering that there are a lot of daily needs, the employees need more incomes and most of them rely on the existence of THR. The amount of THR is suitable and good. This matter indicates that financial compensation accepted in Eid Mubarak helps employees in fulfilling their needs.

### **5.2. The Influence of Financial Compensation on Job Motivation**

The result of the research shows that financial compensation does not have effect on job motivation of the employee of PT Pupuk Kaltim. It means that the high or low of compensation accepted by the employee does not influence the increase of job motivation.

The result of this research is in contrary with the theory of Werther and Davis (1996) that defines the salary compensation as what is accepted by the worker as a substitution of his contribution to industry. Salary compensation represents result of service or merit that has been given by the labor. Salary represents reward given by the industry to workers as a compensation of their job.

According to Brudney and Condrey (1993), the factors that influence motivation are: work variation, remuneration level and successfulness, commitment and trust of organization, attitude to remuneration, and amount importance of monetary reward, relation between remuneration and accuracy, and also transparency in salary payment system. The same theory is told by Kovach (1995). He expresses that the ranking factor which influence worker motivation to work are: working is important, owning full appreciation in working, feeling has something, job security, good salary rate.

This result of research is different with Umar (2011), who shows that salary has positive effect on job motivation. Umar does the research of the employee in a company in Makasar.

The difference of this research result with former research and theory may be caused by motivation theory used to measure job motivation in PT Pupuk Kaltim. The Herzberg's Two Factors Motivation Theory is used. According to Herzberg (1964), the thing that can encourage people to work better and enthusiastic (motivator) is only the group of satisfiers. Satisfiers are often called with intrinsic factor, job content, and motivator. Two factors of job motivation approach told by Herzberg conclude that job satisfaction and dissatisfaction come from two peripheral of separate factor, which is called "cause of satisfaction" (satisfiers) and "cause of dissatisfaction" (dissatisfies).

Financial compensation does not have an effect on job motivation. It is caused by factor of merit enhancement. Some employees have opinion that the policy of merit enhancement that is applied by the company does not motivate employees job. This matter is caused by the difference of merit enhancement between good and unfavorable employee is too small. The financial amount of the merit enhancement policy that is under value giving less influence on job motivation. Some employees have opinion that both working very seriously and not seriously have less effect to merit enhancement accepted by employees.

It can be concluded that the difference of the research result with former research and theory is caused by the financial compensation, especially the merit enhancement between good and unfavorable employee is too small, so that the merit enhancement does not motivate employee in working.

### **5.3. The Influence of Performance Appraisal System on Job Satisfaction**

The research result indicates that the performance appraisal system of employee has an effect on employee job satisfaction of PT Pupuk Kaltim. It means that better employee performance appraisal system of PT Pupuk Kaltim will increase the job satisfaction. On the contrary, worse employee performance appraisal system will decrease the job satisfaction.

Result of this research supports the theory of Benardin and Russel in Gomes (2003) that performance appraisal is a method of measuring individual contribution for organization.

The result also supports the research of Sancoko (2013), where employee job motivation is influenced by quality, quantity, timeliness, cost effective, need for supervisor, and interpersonal relation.

The similarity between this research result with theory and former research indicates that performance appraisal system has influence and impact on job satisfaction of employee. Good performance appraisal system will generate job satisfaction of employee, because the performance appraisal system will become reference for promotion and also recognition to employee. Employee satisfaction on performance appraisal system applied by company makes employee works with pleasure.

Performance appraisal system applied by the company has brought change in working climate in PT Pupuk Kaltim. Existence of appraisal with system of soft competence makes employee know more of his strength and weakness. Employee who knows his weakness will immediately improve for the goodness of his own and the company. The implementation of the performance assessment based on the soft competence makes employee be satisfied in work, because this assessment is very transparent related to position promotion.

#### **5.4. The Influence of Employee Performance Appraisal System on Job Motivation**

The research result indicates that performance appraisal system of employee has an effect on employee job motivation of PT Pupuk Kaltim. It means that better employee performance appraisal system of PT Pupuk Kaltim will result in better job motivation. On the contrary, worse employee performance appraisal system of will result in the decrement of job motivation. The result of this research supports the research of Najafi et al., (2010) and Khan (2013), where in many organizations, the decision of reward indicates that manager tends to give positive appraisal.

Performance appraisal system which is applied by PT Pupuk Kaltim has impact to employee job satisfaction and job motivation. Performance appraisal system is a set of instrument used by PT Pupuk Kaltim to measure attainment of employee performance and employee competence. Employee performance appraisal system of PT Pupuk Kaltim is measured by using 360 degrees performance appraisal system and appraisal of individual Key Performance Indicator (KPI).

The two performance appraisal systems of employee are applied by PT Pupuk Kaltim. Although there are constraints, the system can give job satisfaction and job motivation to the employee. This condition becomes important attention, so that in the future, the performance appraisal systems are continued to be developed to increase job motivation and job satisfaction of employee in PT Pupuk Kaltim. All kind of inputs that are given to employee related with performance appraisal system has to be noticed and followed up for the improvement of performance appraisal system based on soft competence.

#### **5.5 The Influence of Financial Competence on Employee Performance**

The result of the research indicates that financial compensation does not have an effect on employee performance of PT Pupuk Kaltim. This matter indicates that employee performance of PT Pupuk Kaltim is not affected directly by the high or low of financial compensation.

The result of this research is in contrary with theory of Mathis and Jackson (2000) who express that one of method of management to increase job merit, motivate, and improve job satisfaction of all employees is through compensation. Compensation represents something that is accepted by employees for the compensation of their jobs. The same theory is told by Swasto (2003) who expresses that job merit or performance represents accomplishment of duty which has been finished by someone in certain time and can be measured. This matter can be noticed with amount of quality and quantity of work that can be finished by individual in certain period.

The result of this research is also in contrary with the research of Niode (2011) and Umar (2011), who indicate that salary has a positive effect on employee performance. The result of this research is in contrary with theory and former research. Besides, this research indicates that financial compensation only has an effect on job satisfaction and does not have an effect on job motivation and employee performance. It means that financial compensation accepted by employee is only limited to reach job satisfaction and need more attention so that financial compensation can have an effect on employee performance and motivation.

In this research, performance is measured based on the theory of Gomes (2003). From performance theory used in this research that assessed performance has less relation to work completion, does not apply in current research. Many solutions for new delayed works are caused by employee demotivation to work actively. The motivation of employee to finish work is still unfavorable. This matter is caused by financial compensation related to merit enhancement. According to the previous explanation, the merit enhancement accepted by employee is still low, so that the employee performance is low.

#### **5.6. The Influence of Employee Performance Appraisal System on Employee Performance**

The research result indicates that performance appraisal system of employee does not have an effect on employee performance of PT Pupuk Kaltim. This matter indicates that the badness or the goodness of performance appraisal system to employee does not influence performance of all employees of PT Pupuk Kaltim directly. The result of this research is in contrary with theory of Bernardin and Russel (1993), that appraisal of performance basically represent key factor to develop an organization effectively and efficiently. It causes better program or policy of human resource in organization. Performance appraisal of individual performance is very beneficial for the growth of organization as a whole. By using the assessment, we know the real condition about the employee performance. Assessment of performance is the method of measuring individual contribution (employee) to organization where he/ she works. The result of this research is also in contrary with the research of Fakharyan et al., (2012). They show that there is positive relation between satisfaction of performance assessment and employee performance. The influence of performance assessment system to employee performance is caused more by some employees still find difficulties to write down the employee job description into the format of individual KPI. It affects the interpretation of the assessment result of individual KPI. Many forms that must be filled in the assessment of KPI cause difficulties to some of performance assessments, so that assessor finds difficulties to describe each employee. Frequently, assessment of performance gives same result between one employee and others and causes diffraction in assessment.



Existence of diffraction in assessment of performance make some employees assume that assessment of performance based on soft competence is less suitable with the fact in field. The unsatisfied employee has tendency to work unfavorable with less motivation.

### **5.7. The Influence of Job Satisfaction on Job Motivation**

The result of research shows that job satisfaction gives influence on employee job motivation of PT Pupuk Kaltim. It means that if the employees are satisfied, the job motivation will increase. This result supports the theory of Davis and Newstrom (1998), who express that job satisfaction shows suitability between someone's expectation and reward of work, so job satisfaction also has close relation with justice theory, psychological agreement, and motivation. This research also supports the research of Shah et al, (2012), Umar (2011), who show that job satisfaction has positive influence on job motivation.

Job satisfaction has an effect on job motivation. It is caused by the satisfaction to promotion system or employee career. Career system and promotion that are applied by PT Pupuk Kaltim based on competence system of employee. The placement of position in PT Pupuk Kaltim is always done based on competence test, so that every employee with competence has more opportunity to occupy the position. This policy makes employees be satisfied in work and motivates them to work better. Job motivation influenced by the policy of position promotion system based on employee competence gives positive impact to the development of the employee potential.

### **5.8. The Influence of Job Satisfaction on Employee Competence**

The research result indicates that job satisfaction does not have an effect on employee performance of PT Pupuk Kaltim. This matter indicated that all employee performance of PT Pupuk Kaltim is not affected directly by satisfaction in working.

The biggest controversy in research is about the relation between performance and satisfaction. There is an expression that satisfaction influences performance, while others have an opinion that performance influences satisfaction. Various researches end the controversy by indicating that there is positive relation between performance and satisfaction. This research result corresponds to the model of Lawler and Porter (1979) in Umar (2011). Satisfaction represents a variable that is resulted according to reward that they accept.

Research of Gohari et al., (2013), Muslih (2012), Funmilola (2013) and Umar (2011) aim to study the relation between job satisfaction and employee performance. Empirical finding indicates that satisfaction of job has an effect on employee performance.

Influence of job satisfaction on employee performance is caused more by lack of superior support to subordinate. Some of superiors have less time doing the duty for coaching and counseling the subordinate. Coaching and counseling that is done seriously will be able to improve subordinate performance. Less coach and counsel from the superior to the subordinate will affect the ability of the subordinate in finishing its work.

### **5.9. The Influence of Job Motivation on Employee Competence**

The result of research indicates that job motivation had an effect on employee performance of PT Pupuk Kaltim. It means that the higher employee job motivation of PT Pupuk Kaltim, the higher the employee performance.

According to the Goal Theory told by Suprihanto (1987), someone merit or performance depends on people motivation in doing job. The higher someone motivation to do the job, the higher the level of performance. On the contrary, the lower someone motivation in doing job, the lower the level of performance. This result is also in line with the opinion of Robbins (2003) and Mitcheel (1998). Robbins (2003) explains that employee performance represents function of interaction between motivation and ability. Meanwhile, Mitcheel (1998) creates concept model explaining that motivation influences behavior and job merit.

Research of Deikme (2013), Muslih (2012), Tjahjono and Gunarsih (2008), and Umar (2011), express that job motivation is the condition of having an effect on awakening, instructing, and looking after behavior related to job environment. Employee performance represents result of job in which the quality and the quantity reached by an employee in doing duty based on responsibility given to him. Empirical finding indicates that job motivation variable has an effect on employee performance.

### **5.10. Simulation of Influence: Result of Research Model**

The research result in Figure 1 is modified by omitting the insignificant relation. The result is presented in Figure 2. It explains how to improve employee performance in an easier way to be understood.

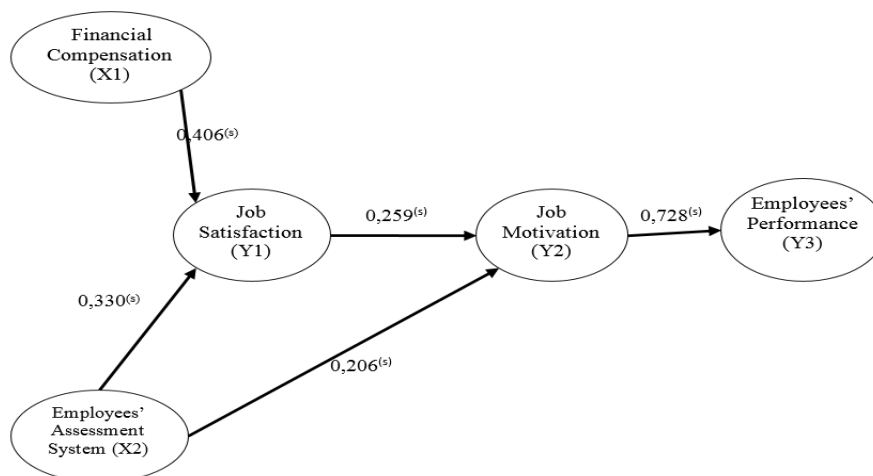


Figure 2. Model of Research Result

Table 3 indicates that employee appraisal is stronger in influencing employee performance compared to financial compensation. It can be explained that employee appraisal system that is applied by PT Pupuk Kaltim can change the job climate in the company. The application of the appraisal system of performance that measures the attainment of employee soft competence and performance by using 360 degrees appraisal system and individual Key Performance Indicator brings a big change for the job in environment of PT Pupuk Kaltim.

Table 3. Total Influence of Exogenous Variables on Employee Performance

| Exogenous variable           | Coefficient | p-value | Note          |
|------------------------------|-------------|---------|---------------|
| Financial Compensation       | 0,076       | 0,6047  | Insignificant |
| Performance Appraisal System | 0,302       | 0,0001  | Significant   |

## VI. CONCLUSION

- In general, this research supports some of performance management theory in integrated human resource system by Schuler, et al. (2011) and performance theory by Gibson (2000). It is stated that performance is influenced by psychological factor in the form of job motivation, and performance is not influenced by organizational factor, that is rewards system (financial compensation) and performance appraisal system.
- Financial compensation has positive effect on employee job satisfaction in PT Pupuk Kaltim.
- Financial compensation has no effect on employee job motivation in PT Pupuk Kaltim.
- Performance appraisal system has positive effect on employee job satisfaction in PT Pupuk Kaltim.
- Performance appraisal system has positive effect on employee job motivation in PT Pupuk Kaltim.
- Financial compensation has no effect on employee job performance in PT Pupuk Kaltim.
- Performance appraisal system has no effect on employee performance in PT Pupuk Kaltim.
- Job satisfaction has positive effect on employee job motivation in PT Pupuk Kaltim.
- Job satisfaction has no effect on employee performance in PT Pupuk Kaltim.
- Job motivation has positive effect on employee performance in PT Pupuk Kaltim.
- Performance appraisal system is stronger in influencing employee performance than financial compensation.

## VII. SUGGESTION

- In order to increase the employee job satisfaction in PT Pupuk Kaltim, there are two variables that need to be noticed, those are the financial compensation and performance appraisal system of employee performance. Job satisfaction of employee can be improved by increasing the nominal of financial compensation, especially related to the enhancement of merit.
- PT Pupuk Kaltim expects to re-study the amount of merit enhancement that is given to high performance employee, when the difference between good and worse employee is very small. In the future, the improvement of merit enhancement is needed to increase performance and job satisfaction of employee who has good performance.
- Employee job satisfaction also can be improved by applying the appraisal system of performance based on soft competence. In the present, the application of appraisal system of performance based on soft competence in PT Pupuk Kaltim has run as expected. However, there are still many constraints in applying

- appraisal of soft competence. The constraint is often related to the difficulty of employee in filling the journal of KPI.
4. In the future, the addition of coaching of counseling related to problem are needed, so that employee will be more capable and efficient in filling the appraisal of performance based on soft competence.
  5. The increment of employee job motivation in PT Pupuk Kaltim can be done by improving job satisfaction and performance appraisal system in PT Pupuk Kaltim. The increasing of job motivation is done by paying attention to employee job satisfaction. At the present, there is tendency from some of employees that feel less satisfied with superior support.
  6. In the future, the role of leader related with coaching and counseling must be improved. If both roles are well done by the leader, it will make employee job easier and cause satisfaction in working.
  7. The increasing of job motivation by improving performance appraisal system can be done by doing publication transparently related to appraisal of employee performance.
  8. Performance appraisal that is done precisely and accurately will help employee to know his strength and weakness.
  9. Employee performance in PT Pupuk Kaltim can be improved directly by the variable of job motivation. In the present, employee job motivation in PT Pupuk Kaltim is high. On the other hand, there is a negative effect from employee job motivation, one of them is the employee individualism.
  10. The changing of employee performance appraisal system has impact to the high job motivation that is shown by individual characteristic in working. This condition of course will cause unpleasant working climate in PT Pupuk Kaltim. Hence, the existence of evaluation to the attitude and behavior of employees is needed.
  11. The increment of employee performance can be done indirectly by employee performance appraisal system. Performance appraisal system is based on soft competence that is assessed better and brings change in job result in PT Pupuk Kaltim.
  12. For the next researcher who searches problem related to employee performance, the suggestion is to focus on certain job unit in PT Pupuk Kaltim. The next researcher is also advised to add some other variables that may influence the employee performance.

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