

Research Article

The Effect of Compensation, Employee Well-Being and Work Motivation on the Performance of Employees of Sharia Savings and Loan Cooperatives (Case Study of BMT NU East Java, Situbondo Regency)

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Abstract: The purpose of this study is to determine the effect of compensation, employee well-being and work motivation as intervening variables on employee performance, this study will test the direct and indirect effects. In this study using quantitative research methods. The number of samples used in this study totalled 112 respondents. By using saturated sampling technique where the entire population is sampled. By using Smart PLS version 3, the analysis results show that 1) compensation has a significant effect on employee well being 2) compensation has a significant effect on work motivation 3) compensation has a significant effect on employee performance 4) employee well being has a significant effect on employee performance 5) work motivation has a significant effect on employee performance 6) compensation mediates the effect of employee well being on employee performance 7) compensation mediates the effect of work motivation on employee performance.

Keywords: Employee performance; Employee well-being; Compensation; Work motivation.

1. Introduction

Human Resource Management (HRM) is a crucial aspect of organizational sustainability. HRM encompasses a wide range of activities, including planning, organizing, coordinating, implementing, and supervising functions such as recruitment, development, compensation, integration, maintenance, and separation of employees—all aimed at achieving organizational goals efficiently and effectively. Human resources are not merely executors but are key drivers that determine the direction and success of an organization. Hence, the management of human capital must be prioritized, as the quality of employees directly affects organizational achievement. HRM promotes creativity and innovation within organizations, making proper management through training, development, and motivation a necessity. Employees are not just production tools but are valuable assets whose potential must be preserved and nurtured (Arifin, 2023: 5). As the people-based economic sector continues to grow, the emergence of microfinance institutions has become a notable phenomenon, particularly in rural communities. One such institution is the Baitul Maal wa Tamwil (BMT), a community-based Islamic financial institution. BMT serves as a solution to the limited access that rural communities have to formal financial services. Amid low levels of financial literacy and the dominance of moneylenders, BMT plays a crucial role in empowering the grassroots economy.

A notable example is BMT NU East Java, which operates primarily in rural areas, including the Situbondo Regency. This institution was established to address economic disparities, particularly among rural populations with strong work ethics but limited means to improve their standard of living. With a sharia-based financial approach and fair financing systems, BMT NU currently operates 14 branches across various districts in Situbondo,

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reflecting its commitment to expanding access to ethical financial services and reducing dependence on exploitative lending practices.

In addition to its core financing functions, BMT NU also conducts community development programs, such as micro-entrepreneurship training and business capital disbursement. For instance, during its Annual General Meeting on January 16, 2025, the institution allocated IDR 527 million (10% of branch profits) to support local economic empowerment initiatives. Awards were also given to outstanding employees and members as a form of recognition and motivation (bmtnujatim.id, 2025).

However, as the organization expands, it also faces new challenges, particularly in managing its human resources. An evolving institution requires an adaptive and professional HR system that balances organizational demands with employee well-being. A critical issue is compensation. Compensation refers to any financial or non-financial reward provided to employees in exchange for services rendered. This includes direct payments such as wages and bonuses, as well as indirect benefits like retirement plans and holiday allowances (Rostikawati, 2024: 1). Fair and appropriate compensation enhances employee satisfaction, motivation, and loyalty. Conversely, inadequate compensation can lead to decreased productivity, increased turnover, and lower morale. In Situbondo, several BMT NU employees reportedly earn wages below the local minimum wage (UMK), as stipulated in East Java Governor's Decree No. 100.3.3.1/775/KPTS/013/2024, amounting to IDR 2,335,209. This issue not only raises legal concerns but also directly affects employee well-being and motivation.

Inadequate compensation also affects employee well-being (EWB), a construct that includes the physical, mental, and emotional health of employees. EWB comprises three key domains: work, life, and psychological needs. Employee well-being influences performance and organizational loyalty and is thus a key predictor of long-term success (Amelia, 2022: 9) Raihani, (2024). Ignoring these aspects increases the risk of burnout and stress-related turnover. Field observations reveal high job stress, lack of recognition, and excessive workloads as major reasons for employee resignation. These challenges erode work motivation, a psychological force that drives individuals to meet goals, complete tasks, and remain loyal to their organization. Motivation is affected not only by individual traits but also by compensation, organizational support, work environment, and career development opportunities (Yusuff, 2023: 25). Motivated employees demonstrate initiative, enthusiasm, and dedication, whereas demotivated workers are often apathetic and resistant to organizational change.

Work motivation includes internal psychological forces that drive behavior and performance. It is shaped by an employee's capabilities, discipline, and willingness to align personal efforts with organizational goals. In the BMT NU branches across Situbondo, differences in employee educational backgrounds have also been linked to varying levels of motivation and creativity, leading to performance inconsistency. High stress levels further worsen this situation, undermining productivity and focus.

Employee performance itself is a complex result of internal, external, and strategic factors. According to Nurfitriani (2022: 6–7), performance is influenced by ability (IQ, skills, and knowledge) and motivation. Organizations must recognize these components in managing performance fluctuations. Compensation plays a central role in enabling employees to meet both personal and family needs, serving as a critical factor in employee retention and performance.

This phenomenon is not unique to BMT NU Situbondo. Previous research has confirmed the influence of compensation, motivation, and employee well-being on performance. Raihani (2024) found a significant relationship between work engagement and well-being among Islamic university lecturers. Fadhila (2023) revealed a positive correlation between perceived organizational support and well-being among employees of Bank Aceh Syariah. Prasetyo (2024) and Guntoro (2024) both concluded that compensation positively affects performance and is mediated by motivation. Mustaqin (2024) and Setiyaningrum (2024) further supported the significance of compensation in improving employee performance in microfinance and cooperative institutions. Given the empirical and theoretical evidence, this study aims to investigate the influence of compensation, employee well-being, and work motivation on the performance of employees in BMT NU East Java, focusing on its 14 branches in Situbondo Regency. Through a deeper understanding of these factors, this research seeks to provide insights for improving HR strategies and optimizing organizational effectiveness.

2. Research Method

This study uses a quantitative approach with an explanatory research design, aiming to test the causal relationship between variables defined in the conceptual framework. The explanatory method is suitable for analysing both the direct and indirect effects of independent variables on dependent variables through mediating variables. The analysis model in this study is built based on relevant theories and previous empirical findings to assess the extent to which compensation affects employee performance, both directly and through employee well-being and work motivation (Sugiyono, 2022).

The research population consists of all employees working in 14 branches of the Sharia Savings and Loan Cooperative (KSPPS) BMT NU East Java located in Situbondo Regency. These branches are spread across various districts, including Bungatan, Asembagus, Suboh, Mangaran, Kapongan, Kendit, Jangkar, Besuki, Arjasa, Mlandingan, Panji, Situbondo City, Banyuputih, and Jatibanteng. A saturated sampling technique was used, meaning that all members of the population were included as respondents in the sample. The number of respondents in this study was 112 employees.

Primary data was collected directly from respondents using a structured questionnaire. The questionnaire was designed based on validated indicators for each research variable: compensation, employee well-being, work motivation, and employee performance. Each item was measured using a five-point Likert scale, ranging from “Strongly Disagree” to “Strongly Agree”, allowing respondents to indicate their level of agreement with each statement. (Prasetia, 2022)

The variables in this study are categorised as follows: the independent variable is compensation, the mediating variables are employee well-being and work motivation, and the dependent variable is employee performance. The operational definitions of these variables have been clearly formulated. Compensation refers to the monetary and non-monetary rewards provided by the organisation, including salary, incentives, and benefits. Employee well-being encompasses the physical, emotional, social, and psychological conditions experienced by employees in the workplace. Work motivation refers to the internal and external driving forces that influence employees' willingness to perform their tasks. Employee performance is defined as the quality and quantity of work produced by employees in fulfilling their responsibilities.

To analyse the data, this study uses Structural Equation Modelling - Partial Least Squares (SEM-PLS) with SmartPLS version 3. SEM-PLS was chosen for its ability to analyse complex relationships between latent constructs simultaneously. The evaluation process includes the measurement model (outer model) and the structural model (inner model). The outer model is evaluated to determine the validity and reliability of the indicators. Convergent validity is tested using factor loadings and Average Variance Extracted (AVE), with acceptable thresholds of 0.70 for factor loadings and 0.50 for AVE (Musyaffi, 2021: 10). Discriminant validity is evaluated through cross-loading analysis, Fornell-Larcker criteria, and Heterotrait-Monotrait Ratio (HTMT), while construct reliability is verified using Composite Reliability and Cronbach's Alpha, both of which must exceed 0.70 (Evi, 2023).

The internal model was evaluated by analysing the R-square (R^2) value to determine the explanatory power of independent variables on dependent variables, the Q-square (Q^2) value for predictive relevance, and the f-square (f^2) value to assess the effect size of each independent variable. Hypothesis testing was conducted through path coefficient analysis, supported by t-statistics and p-values to determine the significance of the relationship. A hypothesis is accepted if the t-statistic is greater than 1.96 and the p-value is less than or equal to 0.05 (Musyaffi, 2021: 13).

The problem-solving framework in this study is based on a systematic scientific approach, starting from problem identification and theoretical review, followed by hypothesis formulation, data collection using valid instruments, and data analysis using SEM-PLS. This methodological structure enables researchers to draw valid conclusions and provide practical recommendations to improve human resource management strategies, particularly in enhancing employee performance through fair compensation, better welfare, and higher motivation among employees of BMT NU East Java.

3. Results and Discussion

Compensation has a significant impact on employee well-being. Appropriate compensation not only meets financial needs but also increases job satisfaction, comfort in the workplace, and emotional stability. When employees feel valued through fair compensation, their motivation, loyalty, and productivity increase. Compensation serves as economic support and recognition of effort. In the context of Islamic microfinance institutions such as KSPPS BMT NU East Java in Situbondo, a well-managed compensation system is a strategic element that supports employee well-being and sustainable performance, making it essential for management to prioritise in human resource planning.

The influence of compensation on work motivation is proven to be significant, indicating that fair and adequate compensation can enhance employees' enthusiasm, loyalty, and dedication. Compensation serves not only as financial reward but also as a form of recognition that strengthens intrinsic motivation and work responsibility. This aligns with Herzberg's theory, which states that compensation is a crucial factor in creating job satisfaction and driving optimal employee performance, especially within organizations that prioritize employee well-being.

Compensation has a significant impact on employee performance, showing that a fair and adequate compensation system can improve productivity, loyalty, and a sense of responsibility among employees. It not only fulfills financial needs but also plays a vital role in enhancing motivation and commitment to work. Compensation acts as a key driver in improving performance, making it an essential element in achieving optimal results within organizations, especially in microfinance institutions like KSPPS BMT NU Jawa Timur in Situbondo Regency. A well-managed compensation system helps foster a positive work environment where employees feel valued and motivated to contribute to organizational success.

The influence of employee well-being on employee performance is proven to be significant, as well-being reflects the level of comfort, satisfaction, and mental health that employees experience in the workplace. When employees feel a high level of well-being, they tend to be more engaged, focused, and committed to their tasks. This positive condition not only reduces stress and fatigue but also fosters a more productive and harmonious work environment. Therefore, improving employee well-being can enhance individual performance, strengthen teamwork, and support the achievement of organizational goals, particularly in the context of Islamic microfinance institutions such as KSPPS BMT NU Jawa Timur.

Compensation has a significant influence on improving employee performance by enhancing productivity, loyalty, and responsibility in carrying out work tasks. Compensation is not only a financial reward but also an important factor that strengthens employee motivation and commitment to their work. A fair and adequate compensation system helps create a positive work environment where employees feel valued and motivated to give their best. This, in turn, supports the achievement of organizational goals and builds a culture of dedication and high performance. Proper compensation also contributes to job satisfaction and reduces employee turnover, helping organizations maintain a stable and experienced workforce. Appropriate recognition and rewards are essential for fostering loyalty and improving overall organizational effectiveness.

The influence of compensation on employee performance through employee well-being is proven to be significant, indicating that employee well-being acts as a strong mediator in this relationship. The better the compensation received, the higher the employees' well-being, which in turn positively impacts their performance. This reflects that compensation not only provides direct financial benefits but also improves psychological, emotional, and workplace comfort conditions, which subsequently drive performance improvement. Furthermore, the Variance Accounted For (VAF) value of 88.5% indicates that most of the effect of compensation on performance is channeled through employee well-being. Since this VAF value exceeds 80%, the relationship is categorized as full mediation. In other words, compensation does not directly improve employee performance but does so indirectly by first enhancing employee well-being, which then triggers optimal performance. This underscores the importance of employee well-being as a key bridge in creating a positive link between compensation and performance in the workplace.

The results of the specific indirect effects test indicate that compensation has a significant impact on employee performance through work motivation, with an indirect effect value of 0.208, a t-statistic of 4.616, and a p-value of 0.000. Since the t-statistic is well above

1.96 and the p-value is less than 0.05, it can be concluded that work motivation serves as a significant mediator in the relationship between compensation and employee performance. This finding shows that fair compensation not only has a direct effect but also enhances employee motivation, which subsequently positively influences performance. Thus, work motivation functions as an important pathway in channeling the effect of compensation on performance, especially within the environment of KSPPS BMT NU Jawa Timur in Situbondo Regency. With a VAF value of 92.0%, it can be concluded that the influence of compensation on employee performance is fully mediated by work motivation. In other words, compensation does not directly affect performance but does so indirectly through the enhancement of work motivation. This finding reinforces that work motivation is the main pathway through which compensation positively affects employee performance, particularly in KSPPS BMT NU Jawa Timur in Situbondo Regency.

6. Conclusions

This study proves that compensation has a significant effect on employee well-being, work motivation, and employee performance at the Sharia Savings and Loan Cooperative (BMT NU East Java in Situbondo Regency). Fair and adequate compensation not only meets employees' financial needs but also enhances job satisfaction, intrinsic motivation, loyalty, and sense of responsibility in carrying out their duties.

Furthermore, employee well-being plays an important role in improving employee performance by creating a comfortable working environment, reducing stress, and increasing focus and engagement in their work. Work motivation is also shown to be a strong mediator in the relationship between compensation and employee performance, indicating that the effect of compensation on performance is more effective when it increases employees' motivation.

Mediation analysis reveals that the effect of compensation on employee performance is fully mediated by employee well-being and work motivation. In other words, compensation affects performance not only directly but primarily through improving employee well-being and motivation, which subsequently drive performance enhancement.

Therefore, human resource management at BMT NU East Java should prioritize a fair and adequate compensation system as a key strategy to enhance employee well-being and motivation, leading to optimal performance and supporting the sustainability of the organization in delivering sharia-based financial services to the community.

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