

# The Effect of Financial and Non-Financial Compensation on Performance of Employees

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**Abstract:** This research aims to determine the influence of financial and non-financial compensation on employee's work performance. This study was held at the IKIP College of Gunung Sitoli. The research was conducted in August 2019. The number of samples in this study was 28 respondents. Data analysis using multiple linear regression tests. The results showed that in the unison of financial and non financially compensation was significant to the employee's work achievement. The partial financial and non-financial compensation has a significant effect on employee achievement. Financial compensation has a more dominant influence on job performance than financial compensation.

**Keywords:** Financial Compensation, Non-Financial Compensation, and Job Performance.

## I. Introduction

In the current global conditions, companies must be able to provide reliable human resources who also excel for their companies and have an important role in improving the company's progress. Management has a very important role in overseeing the company's operations, therefore effective management in the company is the key to success. While human resources are the most valuable and invaluable wealth in the company. Therefore companies and employees need each other. And is an inseparable wealth.

Aware of the importance of human resources for the survival and progress of a company, then a company must pay special attention to this factor of production and it is natural for company owners to view human resources as more than just company assets and make partners in doing business. Companies must be able to be fair for what has been given by human resources to the company because every employee has the right to get rewards and fair treatment from their leaders in return for the services they provide, to encourage employees to be more motivated in carrying out their obligations as a worker. A mutually beneficial working relationship between the company and employees is needed to encourage employee morale. Employees provide good work performance for the progress of the company, while the company provides appropriate compensation for work performance that has been given by employees to the company.

Some ways to achieve good performance can be achieved through education, training, providing proper compensation, creating a conducive work environment, and providing motivation. It is hoped that this method will maximize the responsibility for their work because the employees have been equipped and this is related to the implementation of their work. Motivating to improve the performance of employees regarding various forms, including by providing direct motivation directed at each individual.

The usual way to do this is to provide a reasonable compensation policy, which can meet all their needs. Each individual of an organization has its interests and goals when he joins the organization. For some employees, the hope of earning money is the only reason to work, but others argue that money is only one of many needs that are met through work. Someone who works will feel more valued by the surrounding community, compared to those who do not work. Compensation is part of the reciprocal relationship between organizations and human resources.

### **II. Literature Review**

Compensation can be given in various forms, both financial and non-financial. Compensation given to employees in one agency is different from employees in other agencies, as well as compensation was given to public employees, and compensation given to professional employees has a different value. Compensation for production employees is usually given based on several programs including, first, a piece work program in which the acquisition is directly related to the amount produced by the employee by paying the person concerned a piece rate for each unit produced. Second, the standard hour program, where employees are rewarded based on premium presentations which are the same as the presentation of results achieved above the standard. Third, group incentive programs, where companies will set work standards for each group member and use a method of calculating the output produced by each member.

Providing appropriate financial compensation is important for employees, in addition to meeting the needs of life financial compensation is an appreciation of the company's work potential that can affect employee behavior in work. Therefore it can be said that the provision of financial compensation not only benefits employees but also companies that will get employees who are loyal to the company. Provision of wise financial compensation affects both parties for employees and the company, therefore this policy is expected to satisfy both parties.

The decision to award compensation regarding professional employees is a unique problem. One of them is that for professionals generally, money matters are perhaps less important than for other groups of employees. This is because the type of work carried out is investigative work that requires very high levels of creativity and problem solving so it is not easy to compare and measure factors that can be compensated. Therefore factors that can be compensated here tend to focus on problem-solving, creativity, the scope of work as well as technical knowledge and expertise. Based on the type of work mentioned above, it is necessary to evaluate the tasks carried out in the context of determining appropriate compensation, because the purpose of the compensation itself is to encourage the emergence of better performance.

Compensation can improve employee performance, so the IKIP Gunung Sitoli Higher Education company must provide commensurate rewards or rewards for outstanding employees. If employees are treated less well, it can lead to less than optimal work enthusiasm such as absenteeism rises, often late for office and go home quickly.

Based on preliminary research, it is known that the compensation of employees in Gunung Sitoli IKIP Higher Education is uneven. One reason is the difference in position or class and level of education. Employees who have a high level of absenteeism and are often late entering the office and go home quickly without a good reason, and employees who often leave work time and are not the same for lecturers are compensated with structural employees. Based on this description, the authors are interested in researching with the title "The Effect of Financial and Non-Financial Compensation on Employee Achievement". This study aims to determine the effect of financial and non-financial compensation on employee performance.

### **III. Methodology**

This research was conducted at IKIP Gunung Sitoli College. This research was conducted in August 2019. The population in this study were employees of the Gunung Sitoli IKIP College, amounting to 28 people. The determination of the sample is done by census where all employees are used as samples. To test the hypothesis, a multiple linear regression test is supported by SPSS version 19 for windows. The Regression Analysis formula is as follows (Sugiyono, 2011).

$$Y = a + b_1X_1 + b_2X_2 + e_i$$

Keterangan :

- Y : Performance variable
- b<sub>1</sub> : Financial compensation regression coefficient
- b<sub>2</sub> : Non-financial compensation regression coefficient
- X<sub>1</sub> : Financial Compensation
- X<sub>2</sub> : Non-financial Compensation
- a : Constant number
- e<sub>i</sub> : Interference variable

IV. Results

Multiple linear regression explains the magnitude of the effect of financial and non-financial compensation on performance appraisals. Regression analysis with calculations using SPSS 19 software with the following results:

Table 1. Coefficients<sup>a</sup> Multiple Linear Regression Test

Model	Unstandardized Coefficients	Standardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	-	4.220		
		11.020		-	.014
	Financial	.557	.135	.521	4.020
	Non-finansial	.563	.175	.414	3.141

a. Dependent Variable: Performance

Based on these results, the multiple linear regression equation that has the formulation:  $Y = \textcircled{0} + \textcircled{1}X_1 + \textcircled{2}X_2 + \Sigma$  becomes:

$$Y = -11,020 + 0,557 X_1 + 0,563 X_2$$

With an estimated standard deviation of 2,050. The description of the multiple linear regression equation above is as follows:

- ⓪ : -11,020 The constant number (⓪) of -11,020 shows the magnitude of employee performance when financial and non-financial compensation is equal to 0.
- Ⓜ1 : 0.557 The first regression coefficient (Ⓜ1) of 0.557 shows the magnitude of the effect of financial compensation on employee performance assuming constant non-financial compensation. This means that if financial compensation increases by 1 unit of value, then it is predicted that performance will increase by 0.557 units of value assuming constant non-financial compensation.
- Ⓜ2 : 0.563 The second regression coefficient (Ⓜ2) of 0.563 shows the magnitude of the effect of non-financial compensation on employee performance assuming constant financial compensation. This means that if non-financial compensation increases by 1 unit of value, it is predicted that performance will increase by 0.563 units of value.

The coefficient of multiple determination is used to determine the contribution of the dependent variable (performance), while the multiple correlations show the closeness of the relationship between the two variables analyzed. The results of the determination test can be seen in Table 2.

Table 2. Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.818 <sup>a</sup>	.668	.639	2.050

Predictors: (Constant), Non-financial compensation, financial compensation

Descriptions of the coefficient of determination and multiple correlations are as follows:

Adjusted R<sup>2</sup>: 0,639; R<sup>2</sup> = 0.668, the figure above shows that the coefficient of determination has been adjusted and correlated by the degree of freedom of 63.90%. So the contribution of financial and non-financial compensation simultaneously to ups and downs of performance varies between 63.90% to 66.80%, while the rest of 36.20% to 33.10% is contributed by other factors outside financial compensation and non-financial. Multiple R: 0.818, Multiple R explains that the relationship between financial and non-financial compensation simultaneously with upward and direct performance, meaning that if financial and non-financial compensation simultaneously increases, then the performance will increase. To determine the effect of financial and non-financial compensation simultaneously on performance is done by the F test as in Table 3.

Table 3. Test F  
ANOVA<sup>b</sup>

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	200.410	2	100.205	24.666	.000 <sup>a</sup>
	Residual	101.560	25	4.062		
	Total	301.970	27			

a. Predictors : (Constant), Non-Financial Compensation, Financial Compensation

b. Dependent Variable: Performance

The procedures and criteria for acceptance and rejection of hypotheses are set as follows:

H0: There is no significant effect between financial and non-financial compensation on employee performance.

H1: There is a significant effect between financial and non-financial compensation on employee performance.

Based on the F test results, the F count value of 24.666 was obtained with a significance level of 0,000 <0.05, so that H0 was rejected or H1 was accepted. This shows that financial and non-financial compensation simultaneously has a significant (real) effect on performance, thus the first hypothesis can be accepted.

To find out the effect of financial and non-financial compensation partially on performance can be seen in the t-test in Table 1.

In this study, the partial hypothesis test was carried out in two ways, namely:

Hypothesis testing the effect of financial compensation on employee performance. The procedures and criteria for acceptance and rejection of hypotheses are set as follows:

H0:  $b_1 = 0$  means, financial compensation does not influence performance.

H1:  $b_1 \neq 0$  means, financial compensation has a positive influence on performance.

Based on the results of processing with the SPSS 19 program it is known that the t count is 4,020 with a significance level of 0,000 <0.05, it can be concluded that H1 is accepted, meaning that financial compensation has a significant influence on employee performance.

Hypothesis testing the effect of non-financial compensation on the performance of the employees of the Gunung Sitoli IKIP College The procedures and criteria for acceptance and rejection of hypotheses are set as follows:

H0:  $b_1 = 0$  means that non-financial compensation does not affect performance.

H1:  $b_1 \neq 0$  means, non-financial compensation has a positive effect on performance.

Based on the results of processing with the SPSS 19 program it is known that t count is 3.141 with a significance level of 0.004 <0.05, it can be concluded that H1 is accepted, meaning that non-financial compensation has a significant influence on employee performance. Based on the research results above, it can be seen that financial and non-financial compensation has a significant influence on employee performance, where non-financial compensation has a more dominant influence on performance compared to financial compensation.

The results showed that the provision of compensation had a significant effect on employee performance at the Gunung Sitoli IKIP College. If the existing financial and non-financial compensation variables are improved both in terms of how to provide an incentive system as attractive as possible so that employees are interested in the existing system, appropriate compensation because at present the compensation is still lacking according to employees, more adjusted and enlarged salary again by their respective capacities, a clearer system of providing incentives and employee support facilities is better equipped so that employees can work better. Conversely, if financial compensation is poor, it can affect the performance of employees who will decline. Therefore the company conducts management that can direct all employees to be productive in the sense of good performance or achievement in completing a job. Some ways by an organization to fulfill a good working relationship with its employees include motivating in the form of fair compensation.

The results showed that financial compensation had a significant effect on employee performance. The company in providing salaries to all employees is by the minimum living needs, in addition to the salary giving system provided by the company by the positions held by employees and the company also provides occupational health benefits following employee expectations. While bonuses and incentives affect because in the granting of bonuses and company incentives it is already based on the achievements made by employees, bonuses, and incentives given are by the achievements, bonuses, and incentives provided can meet the needs of employees. To further encourage high performance, many companies adopt an incentive system as part of a reward system that applies to company employees.

## *The Effect of Financial and Non-Financial Compensation on Performance of Employees*

Non-financial compensation has a significant effect on employee performance. The work and work environment has a significant effect on performance because to do a good job requires a sense of pleasure in his work, calmness, and security. If the condition of the work environment is not good, it affects their work activities, because employees feel disturbed by their work, resulting in lower employee performance. For that the work environment needs to be considered by the company, such attention can be in the form of improvements to one element of the work environment that is unsatisfactory. With a good working environment, employees will be able to do their jobs well so that they will encourage employees to be happy to work and increase their sense of responsibility to do work better towards improving performance.

Based on the results of testing the hypothesis above, it can be concluded that after all the main goal of people working is so that he can live from his work, or in other words, they want to work because they feel that by working that he will get an award from his contribution in work in the form of compensation or compensation he deserves as a source of sustenance to support himself and his children and his wife. So it can be concluded that reward or compensation can be seen as the key to managing human resources effectively by employee needs.

### **V. Conclusion**

Simultaneously financial and non-financial compensation has an effect of 81.8% on employee performance. Partially, financial compensation influences 66.80% and non-financial 63.90% on employee performance. Financial compensation has a more dominant influence on performance compared to non-financial compensation.

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