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# THE EFFECT OF COMPETENCE AND COMPENSATION ON EMPLOYEE PERFORMANCE WITH JOB SATISFACTION AS AN INTERVENING VARIABLE AT PLN UP2D SUMUT

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**ABSTRACT**

The purpose of this study was to assess how competency and compensation influence employee performance, with job satisfaction as a mediating factor at PLN UP2D North Sumatra. A quantitative approach using a survey method was used. The study population consisted of all employees at PLN UP2D North Sumatra, with a sample size of 117 employees selected through a saturated sampling technique. Data were collected through questionnaires and analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM) with SmartPLS software. The results showed that competency and compensation significantly and positively influenced job satisfaction. Furthermore, competency, compensation, and job satisfaction together had a positive and significant influence on employee performance. In addition, job satisfaction was shown to effectively mediate the relationship between competency and compensation related to employee performance. These results highlight that improving employee competency and establishing a fair compensation framework, along with initiatives to improve job satisfaction, can lead to improved employee performance. This study aims to add knowledge in human resource management theory and serve as a resource for PLN leadership in optimizing employee performance.

## Introduction

In today's world, characterized by globalization and rapid advances in information technology, all organizations must have skilled and qualified human resources (HR) who can adapt to changing work environments. Organizational success is influenced not only by technology or financial resources, but also by how effectively employees perform their roles. Therefore, improving employee performance is a top priority for efficiently achieving organizational goals.

PT PLN (Persero), a state-owned enterprise crucial for electricity supply in Indonesia, faces significant challenges in ensuring the reliability, continuity, and quality of its services to the public. Specifically, the PLN Distribution Regulation Implementation Unit (UP2D) in North Sumatra is responsible for providing stable and sustainable electricity distribution.

Employee productivity at the PLN UP2D North Sumatra significantly impacts the company's ability to deliver excellent service and maintain a reliable electricity supply.
However, in reality, employee performance improvement is not always optimal. Several challenges, such as low motivation, lack of recognition for achievements, and differences in skill levels among employees, can hinder work efficiency and service quality. Therefore, organizations must concentrate on elements that can improve employee performance, including strengthening competencies and ensuring fair pay. Competence refers to an employee's ability to perform tasks based on their knowledge, skills, and work behaviors. Competent employees are able to adapt to change, perform tasks efficiently, and achieve high-quality results, making competency crucial for increasing productivity. For PLN, competency development is crucial because work in the electricity sector demands precision, accountability, and extensive technical skills.
Besides competence, compensation is also crucial. Compensation encompasses the company's recognition of employee contributions, both financial and non-financial. A fair, clear, and competitive compensation framework can boost employee motivation and loyalty. Conversely, dissatisfaction with compensation can lower morale, lead to increased absenteeism, and even lead to employee turnover. Therefore, compensation serves as a strategic tool for managing HR performance.
In the relationship between competence, compensation, and performance, job satisfaction serves as a key mediating factor. Job satisfaction indicates how satisfied, valued, and happy employees feel with their work. Employees who believe their skills are valued and fairly compensated typically experience high job satisfaction, which motivates them to perform at their best. Thus, job satisfaction acts as a bridge that enhances the effects of competence and compensation on performance.
Previous studies have shown that job satisfaction significantly impacts employee performance. Satisfied employees tend to have high intrinsic motivation, work more effectively, and remain committed to achieving organizational goals, while dissatisfaction can lead to decreased productivity, increased stress, and decreased loyalty. Therefore, it is crucial for PLN UP2D North Sumatra to understand and manage the interactions between competency, compensation, job satisfaction, and employee performance. With this insight, the organization can develop appropriate strategies for human resource development, focusing on developing competencies and improving fair and motivating compensation systems.
This study, entitled "The Impact of Skills and Salary on Employee Performance with Job Satisfaction as a Mediating Factor at PLN UP2D North Sumatra," aims to explore the extent of the influence of skills and salary on employee performance, along with the function of job satisfaction as a mediator. The findings of this study are expected to provide useful benefits for PLN management in improving the efficiency of human resource management and overall organizational performance.

**Table 1. Job Assessment**

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| No | Employee Performance Indicators | Ideal Standard (%) | Actual Score (%) | Gap (%) | Category | Information |
|---|---|---|---|---|---|---|
| 1 | Quality of work results | 100 | 68 | 32 | Not good | The work results are not consistent and there are still errors |
| 2 | Timeliness of task completion | 100 | 65 | 35 | Not good | Many jobs are not completed according to the target time. |
| 3 | Mastery of work competencies | 100 | 70 | 30 | Not good | Technical and non-technical competencies are not optimal |
| 4 | Work productivity | 100 | 62 | 38 | Not good | Work output is not yet commensurate with the workload |
| 5 | Work discipline | 100 | 67 | 33 | Not good | There are still delays and non-compliance with procedures |
| 6 | Teamwork | 100 | 69 | 31 | Not good | Coordination and communication between employees is not yet optimal |
| 7 | Initiative and responsibility | 100 | 60 | 40 | Not good | Employees are less proactive in completing work |

Source: PLN UP2D North Sumatra

According to Job Evaluation Table 1, performance metrics for all employees showed actual scores well below the ideal benchmark of 100%, with results ranging between 60% and 70%, categorizing them as poor. The most significant deficiencies were seen in the initiative and responsibility (40%) and work productivity (38%) metrics, indicating a lack of employee engagement and efficiency in the workplace. This indicates that employee performance is suboptimal and needs improvement, particularly in terms of skills and work ethic.

To gain an initial understanding of the impact of each variable, researchers conducted a preliminary survey with a sample of 30 employees. The findings from the preliminary survey can be summarized as follows:

**Table 2. Competency Pre-Survey (X1)**

| No | Statement | Yes (Org) | Yes (%) | No (Org) | No (%) |
|---|---|---|---|---|---|
| 1 | I have sufficient technical and professional knowledge to perform my job. | 12 | 40% | 18 | 60% |
| 2 | I have the appropriate skills to complete the tasks for which I am responsible. | 11 | 37% | 19 | 63% |
| 3 | I am able to adapt to changes in work. | 10 | 33% | 20 | 67% |

Based on the findings from the initial Competency survey (X1), the majority of participants answered No to every statement. This indicates that employee skills are still suboptimal, particularly regarding their ability to adapt to change and carry out tasks effectively.

**Table 3. Compensation Pre-Survey (X2)**

| No | Statement | Yes (Org) | Yes (%) | No (Org) | No (%) |
|---|---|---|---|---|---|
| 1 | The salary or wages I receive are in accordance with the burden and responsibilities of my work. | 11 | 37% | 19 | 63% |
| 2 | Incentives or bonuses are given according to my performance achievements. | 10 | 33% | 20 | 67% |
| 3 | The benefits and facilities provided by the company are adequate. | 12 | 40% | 18 | 60% |

The preliminary survey results of Compensation (X2) showed that most participants answered No to every statement. This situation indicates that the compensation system received by employees is seen as unfair and inadequate, which can lead to decreased job satisfaction and performance among employees.

**Table 4. Pre-Survey Job Satisfaction (Z)**

| No | Statement | Yes (Org) | Yes (%) | No (Org) | No (%) |
|---|---|---|---|---|---|
| 1 | I feel satisfied with my job duties and responsibilities. | 13 | 43% | 17 | 57% |
| 2 | I am satisfied with the income or compensation I receive. | 10 | 33% | 20 | 67% |
| 3 | I feel satisfied with the working relationship with my superiors and colleagues. | 14 | 47% | 16 | 53% |

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According to the initial Job Satisfaction (Z) survey findings, the majority of participants responded negatively to each statement. The highest levels of dissatisfaction were related to income or salary, suggesting that low levels of employee satisfaction may link competency and salary to employee performance.

**Table 5. Employee Performance Pre-Survey (Y)**

| No | Statement | Yes (Org) | Yes (%) | No (Org) | No (%) |
|---|---|---|---|---|---|
| 1 | I am able to produce good quality work according to company standards. | 12 | 40% | 18 | 60% |
| 2 | I am able to complete the work in the amount that matches the set target. | 11 | 37% | 19 | 63% |
| 3 | I always finish my work on time. | 10 | 33% | 20 | 67% |

The preliminary Employee Performance (Y) survey revealed that the majority of participants answered No to every statement. The largest percentage was recorded for the measurement of timely completion of work, indicating that employee performance remains substandard and may be affected by a lack of skills, salary, and job satisfaction.

**Identification of problems**

1. Employee skill levels are not optimal, as indicated by initial survey results which show that many employees lack adequate technical skills, the ability to perform job tasks, or the capacity to adapt to new situations.
2. Employees do not perceive the compensation system as completely fair and adequate, particularly regarding the appropriateness of salary to workload, the way incentives are provided based on performance, and the adequacy of the benefits and resources provided.
3. There is still a significant lack of job satisfaction among employees, especially regarding their income and job duties, which indicates that what they expect from their work has not been met.
4. Employee performance has not met the expected standards, as indicated by the less than satisfactory quality of work results, achievement of set work targets, and timeliness in completing tasks.
5. It is believed that low job satisfaction can act as a mediating factor between competence and compensation in relation to employee performance, so its impact needs to be tested empirically in a comprehensive manner.
6. The exact relationship between competence, compensation, job satisfaction, and employee performance remains unclear, so research is needed to explore the direct and indirect influences between these factors.

**Formulation of the problem**

Based on the background discussed previously, the research problem has been formulated as follows:

1. Does Competence have a positive and significant effect on Employee Performance at PLN UP2D North Sumatra?
2. Does Compensation have a positive and significant effect on Employee Performance at PLN UP2D North Sumatra?
3. Does Competence have a positive and significant effect on Job Satisfaction at PLN UP2D North Sumatra?
4. Does Compensation have a positive and significant effect on Job Satisfaction at PLN UP2D North Sumatra?
5. Does Job Satisfaction have a positive and significant effect on Employee Performance at PLN UP2D North Sumatra?
6. Does Competence have a positive and significant effect on Employee Performance through Job Satisfaction at PLN UP2D North Sumatra?
7. Does Compensation have a positive and significant effect on Employee Performance through Job Satisfaction at PLN UP2D North Sumatra?

**Research purposes**

Based on the problem formulation that has been described, the objectives of this research are:

1. To test and analyze the effect of Competence on Employee Performance at PLN UP2D North Sumatra.
2. To test and analyze the effect of Compensation on Employee Performance at PLN UP2D North Sumatra.
3. To test and analyze the effect of Competence on Job Satisfaction at PLN UP2D North Sumatra.
4. To test and analyze the effect of Compensation on Job Satisfaction at PLN UP2D North Sumatra.
5. To test and analyze the effect of Job Satisfaction on Employee Performance at PLN UP2D North Sumatra.
6. To test and analyze the effect of Competence on Employee Performance through Job Satisfaction at PLN UP2D North Sumatra.
7. To test and analyze the effect of Compensation on Employee Performance through Job Satisfaction at PLN UP2D North Sumatra.

**Benefits of research**

This study aims to generate theoretical and practical benefits, which include:

1. Theoretical Benefits

a. Help advance the study of human resource management, particularly regarding how skills and pay affect worker performance, with job satisfaction as a mediating factor.

b. Serve as a basis for future research exploring the relationship between skills, wages, job satisfaction, and worker performance, particularly in public service or government-owned enterprise settings.

2. Practical Benefits

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a. For PLN UP2D North Sumatra, the findings of this study can be the basis for creating HR improvement strategies, including improving employee skills and building a more efficient payroll system.
b. Provides insight into the importance of job satisfaction as a variable mediating the impact of skills and pay on performance, thereby enabling management to formulate appropriate policies aimed at enhancing employee motivation and efficiency.
c. Act as a source of review for PLN leaders in their initiatives to improve the quality of employee performance and public services, thereby assisting in optimally realizing organizational goals.

**Employee Performance**

According to Hersey, Blanchard, & Johnson (2018): Employee performance is the work results achieved by an individual according to organizational standards. According to Armstrong (2017): Employee performance is the individual's ability to achieve organizational goals effectively, efficiently, and with quality, encompassing the quality, quantity, and timeliness of task completion.

**Indicators of Employee Performance**

Armstrong (2017) indicators of Employee Performance are as follows:
1. Quality of work results
2. Quantity of work completed
3. Timeliness of task completion
4. Discipline and rule compliance
5. Initiative and responsibility

**Factors Influencing Employee Performance**

According to Armstrong (2017), factors influencing employee performance are:
1. Individual ability and competence , includes knowledge, skills, and work experience.
2. Motivation and commitment , internal drive to achieve targets and willingness to contribute to the organization.
3. Leadership and managerial style, influence of leaders on employee morale and work direction.
4. Reward system ,fairness and appropriateness of compensation with performance.
5. Work environment, physical, social, and cultural conditions of the organization that support productivity.
6. Clarity of goals and roles , employee understanding of work targets and responsibilities.

**Competence**

According to Boyatzis (2016): Competence is an individual's ability to achieve superior work results, encompassing consistent skills, knowledge, and motivation.
According to Suharti (2020): Competence is the ability, knowledge, skills, and behavior demonstrated by employees to complete tasks effectively.

**Indicators of Competence**

According to Boyatzis (2016), indicators of Competence are as follows:
1. Mastery of technical and professional knowledge

2. Skills in performing tasks
3. Ability to adapt to change
4. Creativity and innovation in work
5. Decision-making ability

**Compensation**

According to Noe et al. (2020): Compensation is the reward given by the organization to employees in return for their effort and work contribution. According to Milkovich & Newman (2017): Compensation is all forms of reward received by employees for their contributions, both financial and non-financial.

**Indicators of Compensation**

According to Milkovich & Newman (2017), indicators of Compensation are as follows:
1. Basic salary or wages
2. Incentives or performance-based bonuses
3. Allowances or additional facilities
4. Fairness and appropriateness of the compensation system
5. Satisfaction with reward policies

**Job Satisfaction**

According to Spector (2018): Job satisfaction is an individual's attitude towards their job, encompassing feelings of satisfaction with responsibilities, salary, work environment, and interpersonal relationships. According to Locke (2019): Job satisfaction is a person's positive or negative feelings about their job, reflecting the level of comfort and recognition received.

**Indicators of Job Satisfaction**

According to Locke (2019), indicators of Job Satisfaction are as follows:
1. Satisfaction with job tasks and responsibilities
2. Satisfaction with income/compensation
3. Satisfaction with relationships with superiors and colleagues
4. Satisfaction with opportunities for self-developmen.
5. Satisfaction with work environment conditions

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## Conceptual Framework

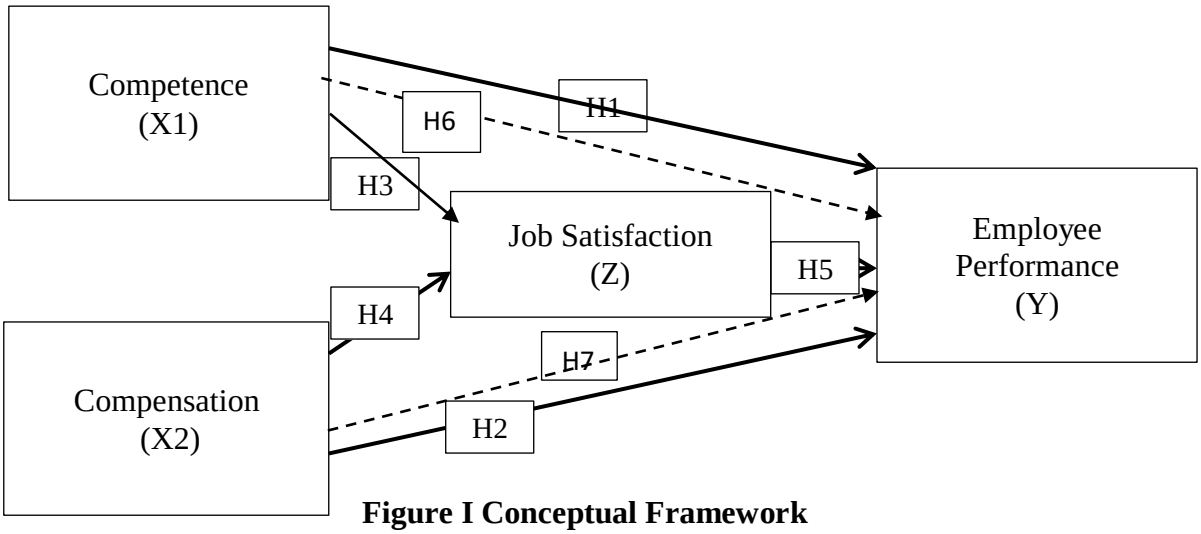


**Figure I Conceptual Framework**

## Research Hypotheses

H1: Competence has a positive and significant effect on Employee Performance at PLN UP2D North Sumatra.
H2: Compensation has a positive and significant effect on Employee Performance at PLN UP2D North Sumatra.
H3: Competence has a positive and significant effect on Employee Job Satisfaction at PLN UP2D North Sumatra.
H4: Compensation has a positive and significant effect on Employee Job Satisfaction at PLN UP2D North Sumatra.
H5: Job Satisfaction has a positive and significant effect on Employee Performance at PLN UP2D North Sumatra.
H6: Competence has a positive and significant effect on Employee Performance through Job Satisfaction as an intervening variable at PLN UP2D North Sumatra.
H7: Compensation has a positive and significant effect on Employee Performance through Job Satisfaction as an intervening variable at PLN UP2D North Sumatra.

## Research Methodology

### Research Type

According to Creswell (2018), associative research is research that aims to determine the relationship or influence between two or more variables, whether causal or correlational. According to Sugiyono (2019), quantitative research is a research method based on the philosophy of positivism, used to study specific populations or samples, and data is collected using research instruments and analyzed statistically to test predetermined hypotheses.

**Research Time and Location**

This research was conducted from November 2025 to December 2025. The research location is the PLN UP2D North Sumatra Office, located at Jl. KL. Yos Sudarso No.284, Glugur Kota, Medan Barat District, Medan City, North Sumatra 20238.

**Population and Sample**

According to Sugiyono (2020), population is the generalization area consisting of objects or subjects that have certain qualities and characteristics determined by the researcher to be studied and then conclusions are drawn. The population in this study is all employees of the PLN UP2D North Sumatra Office, totaling 117 people.

The sampling technique uses saturated sampling. According to Riduwan (2020), saturated sampling is a sampling determination technique when all population members are used as the research sample. Thus, the number of samples in this study is 117 respondents.

**Data Source**

According to Sugiyono (2018), a data source is the subject from which data can be obtained. The data source in this study uses primary data, which is data obtained directly from respondents through distributing questionnaires to employees at the PLN UP2D North Sumatra Office.

**Data collection technique**

Data were collected through a questionnaire, a series of questions given to respondents to gain insight into their opinions, perceptions, and feelings about a particular phenomenon (Arikunto, 2019).

**Data Analysis Techniques Using Smart PLS 3**

In research focusing on latent variables and using quantitative methods, Partial Least Squares Structural Equation Modeling (PLS-SEM) serves as a useful approach to examine how variables are interrelated (Hair et al., 2019). This method can be applied in exploratory and confirmatory studies, particularly when data do not follow a normal distribution or when sample sizes are somewhat limited (Hair et al., 2019). Smart PLS 3 is software designed to facilitate PLS-SEM analysis, offering a user-friendly graphical interface along with a variety of powerful features for model assessment (Hair et al., 2019).

**Measurement Model**

The outer model refers to the segment that connects the latent variables with their indicators, aiming to validate the indicators used for their truth and reliability (Hair et al., 2017).

Outer Model Stages:

a. Convergent Validity: Evaluated through Average Variance Extracted (AVE $\geq$ 0.5) to ensure that the indicators effectively represent the latent variables (Hair et al., 2017).
b. Discriminant Validity: Can be assessed using the Fornell-Larcker Criterion or the Heterotrait-Monotrait Ratio (HTMT) to verify that the indicators exclusively measure the relevant variables (Henseler et al., 2015).

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c. Reliability: Evaluated through Cronbach's Alpha and Composite Reliability (CR ≥ 0.7) to ensure the indicators maintain consistency in measuring latent variables (Hair et al., 2019). 1. Inner Model (Structural Model)

By analyzing the external model, researchers can ensure that all indicators accurately reflect the research variables (Hair et al., 2017).

**2. Internal Model (Structural Model)**

Deep models are used to examine the relationships between latent variables, including direct, indirect (mediation), and moderation effects (Hair et al., 2019).
Stages of the Inner Model:

a. Path Coefficient: Indicates the strength of the impact of the independent variable on the dependent variable. Its significance is checked through bootstrapping (e.g., 5000 resamplings) to obtain the t-statistic and p-value (Hair et al., 2017).
b. R-Square ($R^2$): Assesses the ability of independent variables to explain dependent variables. A higher $R^2$ value indicates a model with better predictive ability (Hair et al., 2019).
c. Effect Size ($f^2$): Used to evaluate the influence of each independent variable on the dependent variable (Cohen, 1988, as cited by Hair et al., 2017).
d. Predictive Relevance ($Q^2$): Measures the ability of a model to predict new data using a blind method (Henseler et al., 2015).

Therefore, analyzing the internal model allows researchers to explore the strength of the relationship between variables, along with the significance and predictive importance of each variable within the research framework (Hair et al., 2019).

## Results and Discussion

### Outer Model Analysis

External model evaluation is conducted to identify the precise relationship between latent variables and their observable counterparts. This testing aims to verify that the measures used are valid and reliable, as all measures must meet these standards before research analysis can be conducted. External model assessment involves testing convergent validity, discriminant validity, and reliability.

### Convergent Validity

Convergent validity in a measurement framework featuring reflective indicators is assessed by examining the relationship between indicator scores and their respective construct scores. An indicator is considered valid if its correlation is greater than 0.7. However, during the research development phase, values ranging from 0.5 to 0.6 were still considered acceptable. Based on the results of the external loadings, many indicators fell below the 0.60 threshold and were therefore insignificant. The structural model for this study is illustrated in the following figure:

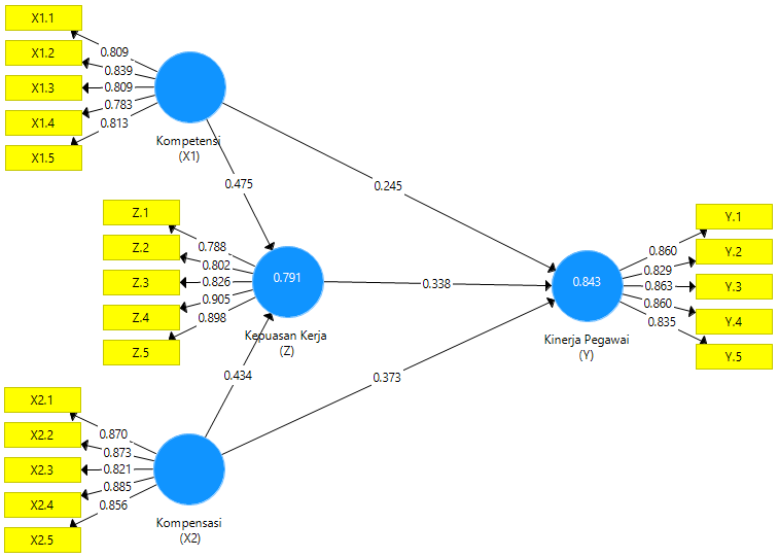


**Figure 1. Outer Model**

Source: Smart PLS 3.3.3

Smart PLS output for loading factor gives the results in the following table: Outer Loadings in this study there is an equation and the equation consists of two substructures for substructure 1

$Z = b1X1 + b2X2 + e1$

$Z = 0.251 + 0.645 + e1$

For substructure 2

$Y = b3X1 + b4X2 + b5Z + e2$

$Y = 0.233 + 0.018 + 0.671 + e2$

**Table 2. Outer Loadings**

| | Job Satisfaction _(Z) | Employee Performance (Y) | Compensation_(X2) | Competence _(X1) |
|---|---|---|---|---|
| X1.1 | | | | 0.809 |
| X1.2 | | | | 0.839 |
| X1.3 | | | | 0.809 |
| X1.4 | | | | 0.783 |
| X1.5 | | | | 0.813 |
| X2.1 | | | 0.870 | |
| X2.2 | | | 0.873 | |
| X2.3 | | | 0.821 | |
| X2.4 | | | 0.885 | |
| X2.5 | | | 0.856 | |
| Y.1 | | 0.860 | | |
| Y.2 | | 0.829 | | |

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| | | | | |
|---|---|---|---|---|
| Y.3 | | 0.863 | | |
| Y.4 | | 0.860 | | |
| Y.5 | | 0.835 | | |
| Z.1 | 0.788 | | | |
| Z.2 | 0.802 | | | |
| Z.3 | 0.826 | | | |
| Z.4 | 0.905 | | | |
| Z.5 | 0.898 | | | |

Source: Smart PLS 3.3.3

According to Table 2, each indicator in the Competence (X1), Compensation (X2), Employee Performance (Y), and Job Satisfaction (Z) variables has an outer loading value exceeding 0.70. This indicates that all indicators effectively represent their respective constructs and meet the convergent validity criteria, thus confirming that all indicators are valid and suitable for inclusion in the research model.

**Discriminant Validity**

Next, this study examined discriminant validity to determine whether each indicator's cross-loading value exceeded its own construct value when compared to other constructs. The purpose of this analysis was to evaluate whether the indicators were strongly correlated with the construct being assessed. The table below displays the cross-loading findings from the discriminant validity examination:

**Table 3.** ***Discriminant Validity***

| | Job Satisfaction _(Z) | Employee Performance (Y) | Compensation_(X2) | Competence _(X1) |
|---|---|---|---|---|
| X1.1 | 0.697 | 0.744 | 0.734 | 0.809 |
| X1.2 | 0.709 | 0.774 | 0.746 | 0.839 |
| X1.3 | 0.732 | 0.687 | 0.672 | 0.809 |
| X1.4 | 0.700 | 0.700 | 0.734 | 0.783 |
| X1.5 | 0.697 | 0.661 | 0.827 | 0.813 |
| X2.1 | 0.731 | 0.692 | 0.870 | 0.785 |
| X2.2 | 0.785 | 0.821 | 0.873 | 0.844 |
| X2.3 | 0.729 | 0.785 | 0.821 | 0.805 |
| X2.4 | 0.736 | 0.739 | 0.885 | 0.764 |
| X2.5 | 0.752 | 0.786 | 0.856 | 0.738 |
| Y.1 | 0.735 | 0.860 | 0.769 | 0.722 |
| Y.2 | 0.776 | 0.829 | 0.738 | 0.762 |
| Y.3 | 0.679 | 0.863 | 0.768 | 0.732 |
| Y.4 | 0.732 | 0.860 | 0.735 | 0.765 |
| Y.5 | 0.789 | 0.835 | 0.769 | 0.757 |
| Z.1 | 0.788 | 0.681 | 0.743 | 0.693 |
| Z.2 | 0.802 | 0.686 | 0.705 | 0.690 |

| | | | | |
|---|---|---|---|---|
| Z.3 | 0.826 | 0.747 | 0.702 | 0.716 |
| Z.4 | 0.905 | 0.789 | 0.747 | 0.782 |
| Z.5 | 0.898 | 0.788 | 0.774 | 0.797 |

Source: Smart PLS 3.3.3

According to Table 3, each indicator has the strongest loading value on the construct it evaluates when compared to other constructs. This indicates that the indicators for Competence (X1), Compensation (X2), Employee Performance (Y), and Job Satisfaction (Z) effectively differentiate their respective constructs. Therefore, the research model meets the requirements of discriminant validity, confirming the validity of all indicators.

**Composite Reliability**

In this study, composite reliability was used to evaluate the consistency of each variable. A variable is considered reliable if the composite reliability score exceeds 0.60. Scores below 0.60 to 0.70 indicate that the variable does not meet the requirements for reliability. Various indicators used to measure reliability and validity in this study include Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE). The results of these measurements can be seen in the table below:

**Table 4.** ***Construct Reliability and Validity***

| | Cronbach's Alpha | Composite Reliability | Average Variance Extracted (AVE) |
|---|---|---|---|
| Job Satisfaction _(Z) | 0.899 | 0.926 | 0.715 |
| Employee Performance (Y) | 0.903 | 0.928 | 0.721 |
| Compensation_(X2) | 0.913 | 0.935 | 0.742 |
| Competence _(X1) | 0.870 | 0.906 | 0.658 |

Source: Smart PLS 3.3.3

According to Table 4, each research element exhibits a Cronbach's Alpha and Composite Reliability value exceeding 0.70, indicating that the assessment tool has a high level of reliability. Furthermore, the Average Variance Extracted (AVE) for each variable is also above 0.50, thus meeting the convergent validity criteria. Consequently, the elements of Job Satisfaction, Employee Performance, Compensation, and Competence can be considered reliable and valid for further examination.

**Inner Model Analysis**

Structural model (internal model) assessment is conducted to ensure that the developed model is robust and accurate. This internal model evaluation includes various indicators, one of which is the Coefficient of Determination ($R^2$).

From the data analysis carried out using SmartPLS 3.0 software, the $R^2$ value was determined as follows:

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**Table .5 . R Square Results**

| | R Square | Adjusted R Square |
|---|---|---|
| Job Satisfaction _(Z) | 0.791 | 0.787 |
| Employee Performance (Y) | 0.843 | 0.839 |

Source: Smart PLS 3.3.3

According to Table 5, the R Square value for job satisfaction (Z) is 0.791, which indicates that 79.1% of the differences in job satisfaction can be explained by the independent variables included in the model, while the remaining 20.9% is influenced by other elements not covered in the study. On the other hand, the R Square for employee performance (Y) is 0.843, which means that 84.3% of the differences in employee performance can be explained by the variables in the model, and 15.7% is influenced by factors outside the research framework.

**Hypothesis Testing**

After the internal model is assessed, the next step is to analyze the relationships between latent constructs based on the research hypotheses. Hypothesis testing is performed by examining the T statistic and P value. The hypothesis is considered accepted if the T statistic exceeds 1.96 and the P value is below 0.05. The following are the path coefficients representing the direct effect:

**Table 6. *Path Coefficients* (Direct Effect)**

| | Original Sample (O) | T Statistics (\| O/STDEV \|) | P Values | Results |
|---|---|---|---|---|
| Job Satisfaction _(Z) -> Employee Performance (Y) | 0.338 | 4,139 | 0,000 | Accepted |
| Compensation_(X2) -> Job Satisfaction_(Z) | 0.434 | 4,553 | 0,000 | Accepted |
| Compensation_ (X2) -> Employee Performance (Y) | 0.373 | 3,309 | 0.001 | Accepted |
| Competence _(X1) -> Job Satisfaction _(Z) | 0.475 | 4,782 | 0,000 | Accepted |
| Competence _(X1) -> Employee Performance (Y) | 0.245 | 2,196 | 0.014 | Accepted |

Source: Smart PLS 3.3.3

1. The Effect of Job Satisfaction (Z) on Employee Performance (Y) The findings show that job satisfaction positively and significantly affects employee performance, with a coefficient of 0.338, a T statistic of 4.139, and a p-value of 0.000. Therefore, the hypothesis is confirmed, which means that as job satisfaction increases, employee performance also increases.
2. The Effect of Compensation (X2) on Job Satisfaction (Z) The analysis confirmed that compensation positively and significantly affects job satisfaction, with a coefficient of 0.434, a T statistic of 4.553, and a p-value of 0.000. These data indicate that providing adequate compensation can increase employee job satisfaction, thus the hypothesis is validated.
3. The Effect of Compensation (X2) on Employee Performance (Y) The results of the analysis show that compensation has a positive and significant effect on employee

performance, reflected in the coefficient of 0.373, T statistic of 3.309, and p value of 0.001. Therefore, the hypothesis is validated, indicating that higher compensation tends to improve employee performance.

4. The Effect of Competence (X1) on Job Satisfaction (Z) Competence has a positive and significant effect on job satisfaction, with a coefficient of 0.475, a T statistic of 4.782, and a p value of 0.000. This shows that higher competence can increase employee job satisfaction, so the hypothesis is confirmed.
5. The Effect of Competence (X1) on Employee Performance (Y) The results of the analysis show that competence has a positive and significant effect on employee performance, with a coefficient of 0.245, a T statistic of 2.196, and a p value of 0.014. Therefore, the hypothesis is accepted, meaning that increasing employee competence can improve performance.

**Table 7. *Path Coefficients* (Indirect Effect)**

| | Original Sample (O) | T Statistics (\| O/STDEV \|) | P Values | Results |
|---|---|---|---|---|
| **Compensation_ (X2) -> Job Satisfaction _(Z) -> Employee Performance (Y)** | 0.147 | 3,260 | **0.001** | **Accepted** |
| **Competence _(X1) -> Job Satisfaction _(Z) -> Employee Performance (Y)** | 0.160 | 3,021 | **0.001** | **Accepted** |

Source: Smart PLS 3.3.3

6. The Effect of Compensation (X2) on Employee Performance (Y) through Job Satisfaction (Z) The findings show that compensation has a positive and significant effect on employee performance through job satisfaction, with a coefficient of 0.147, a T statistic of 3.260, and a p-value of 0.001. Therefore, job satisfaction is proven to effectively mediate the relationship between compensation and employee performance, so the hypothesis is accepted.
7. The Effect of Competence (X1) on Employee Performance (Y) through Job Satisfaction (Z) The analysis shows that competence has a positive and significant effect on employee performance through job satisfaction, resulting in a coefficient of 0.160, a T statistic of 3.021, and a p-value of 0.001. This indicates that job satisfaction functions as an intermediary variable that increases the effect of competence on employee performance, so the hypothesis is accepted.

## Conclusion

After analyzing and interpreting the hypothesis, the researchers came to the following conclusions:

1. Impact of Job Satisfaction (Z) on Employee Performance (Y) Job satisfaction shows a positive and significant impact on employee performance. Thus, higher levels of job satisfaction among employees correlate with increased performance.
2. Impact of Compensation (X2) on Job Satisfaction (Z) Compensation has a positive and significant impact on job satisfaction. This shows that fair and adequate compensation can increase employee job satisfaction.

3. Impact of Compensation (X2) on Employee Performance (Y) Compensation has a positive and significant impact on employee performance. Therefore, when employees receive better compensation, their performance tends to be more effective.
4. Impact of Competence (X1) on Job Satisfaction (Z) Competence has a positive and significant influence on job satisfaction. This means that employees who have a higher level of competence often report greater job satisfaction.
5. The Influence of Competence (X1) on Employee Performance (Y) Competence significantly and positively influences employee performance. This implies that improving employee skills can lead to increased performance levels.
6. The Effect of Compensation (X2) on Employee Performance (Y) through Job Satisfaction (Z) Compensation shows a positive and significant effect on employee performance through job satisfaction. This verifies that job satisfaction effectively mediates the relationship between compensation and employee performance.
7. The Influence of Competence (X1) on Employee Performance (Y) through Job Satisfaction (Z) Competence positively and significantly influences employee performance through job satisfaction. Consequently, job satisfaction serves as an intermediary variable that strengthens the influence of competence on employee performance.

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