

The Influence of the Work Environment and Compensation on the Performance of Employees at the Surya Market Regional Company, Surabaya City

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Abstract

This research aims to examine the influence of the work environment and compensation on the performance of employees of the Surya Market Regional Company, Surabaya City. The research method used is quantitative. The population in this study were all employees of the Surya Market Regional Company, Surabaya City, totaling 43 employees. The sampling technique uses a saturated sampling method. Data collection was carried out through distributing questionnaires, while the data analysis technique used SEM PLS with Smart PLS software. The results of this research indicate that the work environment has a contribution to the performance of employees of the Surya Market Regional Company, Surabaya City. This is demonstrated by the work environment variance having a positive and significant effect on the performance of employees of the Surya Market Regional Company, Surabaya City. Meanwhile, compensation does not contribute to the performance of employees of the Surabaya City Surya Market Regional Company. This is demonstrated by the compensation variable which has no significant effect on the performance of the employees of the Surya Market Regional Company, Surabaya City.

Keywords: Work environment; Compensation; Performance

INTRODUCTION

Currently, the business world is experiencing significant growth, marked by intense competition within it. To remain competitive and increase profitability, innovation is the main key. Focusing on human resource management (HR) is the most important thing in managing a company. The presence of quality employees is crucial in achieving company goals and makes a major contribution to the company's success. The quality of service provided by employees has a significant impact on the continuity and success of the company.

The success of an organization depends greatly on the existence of quality human resources. Effective human resource management requires a strategy that suits the company's needs, especially considering current dynamics and developments. A positive work atmosphere also has an important role in increasing employee productivity. Although many companies face challenges in human resource management, one of the main problems is the high level of employee turnover, which can have a negative impact on the performance and stability of the workforce and the quality of work.

Continuous improvement in employee performance appraisal is essential for companies to achieve the desired performance standards. Employee performance evaluations can be influenced by factors such as the work environment and the compensation they receive. Quoting Mangkunegara (2017), employee performance can be measured based on the quantitative and qualitative results obtained in carrying out their duties and responsibilities towards the company. This expansion of understanding shows that performance is not only limited to

productivity, but also includes the quality of carrying out the tasks carried out by employees. Therefore, continuous efforts to assess and improve employee performance are the key to company success .

Superior employee performance is influenced by various factors, one of which is creating a pleasant work environment for workers. A good work atmosphere or environment has a positive impact on employee performance, helping them achieve company goals more effectively. In accordance with Sedarmayanti (2017), the work environment is defined as the totality of tools, equipment and materials around workers and companies that significantly influence the way work and performance of individuals and groups of employees. Despite this, many companies still do not pay adequate attention to working environmental conditions. Apart from the work environment, another factor that influences employee performance is the compensation system .

According to employees' perceptions, compensation is a tool that allows them to meet their economic needs. Compensation is defined as rewards given by companies to employees in recognition of their contributions, whether in the form of money, goods or other benefits (Hasibuan, 2017). Compensation acts as a form of remuneration from the company, appreciating employee contributions in various forms, such as thoughts, energy, ideas and abilities. Kadarisman (2012) states that compensation is a function of human resource management (HRM) which focuses on various forms of reward that individuals receive as reward for carrying out organizational tasks. In this context, employees exchange their efforts to obtain both financial and non-financial rewards. Pratama's (2015) findings also support the view that compensation has a simultaneous and partial influence, with financial compensation being dominant .

The Surabaya Surya Market Regional Company is a business entity owned by the Surabaya regional government, which aims to provide services to the community by providing places, facilities and infrastructure for traditional markets in the city. The aim is to increase regional income through the regional levies sector and improve services to the community, especially in providing sales places that meet the requirements and are equipped with the necessary infrastructure .

The Surabaya Surya Market Regional Company experienced significant growth in its traditional market management, resulting in the division of market management into three branches. The eastern branch manages 25 markets, the northern branch manages 29 markets, and the southern branch manages 20 markets, bringing the total markets managed to 74 markets. RKAP data for 2020-2022 shows that there are problems with revenue targets not being achieved.

Table 1Data (Company Work Plan and Budget)

Year	Description	Amount	Information
2020	RKAP	Rp. 39,918,995,743	Achieved
	Realization	Rp. 42,169,389,647	
2021	RKAP	Rp. 48,186,001,831	Not achieved
	Realization	Rp. 39,786,122,644	
2022	RKAP	Rp. 44,039,793,441	Not achieved
	Realization	Rp. 41,527,018,874	

Source: Surabaya Surya Market Regional Company (processed data)

Based on table 1, it can be seen that in the last 3 years the RKAP that has been determined has fluctuated. This can be seen from the data above which shows that in 2020 the Surabaya City Solar Market Regional Company was able to achieve the target of 5.63%, however in 2021 the Surabaya City Solar Market Regional Company was unable to achieve the target set at 17.43%, p. This will decrease again in 2022 by 5.70%. This happened because the performance of the employees of the Surabaya Surya Market Regional Company was decreasing. To overcome this decline in low company performance, quality human resources are needed. Therefore, the Surabaya City Solar Market regional company is expected to have employees with a high level of performance.

Some employees in the company stated that the current working environment does not support comfortable work. It can be seen from the presence of a lot of furniture, such as chairs, scattered around the workplace, causing disruption to work. The room temperature felt stuffy because the room was too small to accommodate a large number of employees, minimal air circulation, and a lack of functioning AC, causing the room to become hot. Apart from that, the size of employees' workplaces is also limited, limiting their space for movement. According to Sedarmayanti (2014), the work environment is the totality of tools and materials encountered in the surrounding environment where a person works, their work methods, as well as their recognition and work both as an individual and as a group.

Apart from the work environment at the Surabaya Surya Market Regional Company, there are: indication of problems in providing compensation to employees. Based on the results of an initial interview with the Head of the Personnel Section of the Pasar Surya Regional Company, Surabaya, it was stated that the work environment and compensation received by employees from the Pasar Surya Regional Company, Surabaya, influenced employee performance. This is indicated by an uncomfortable working environment, employee salary increases given every 8 (eight) years, and a decrease in income at the Pasar Surya Regional Company which can be seen from the 2020-2022 RKAP (Company Budget Financial Plan) target which states that there are a decrease in the income that should be obtained by the Surya Market Regional Company. This decrease in opinion led to the use of allocated funds that could be given as compensation, but were used as additional financing in the RKAP (Company Budget Financial Plan).

Literature review

Environment Work

The work environment includes all elements surrounding the worker and has an impact on the implementation of assigned tasks. According to Sedarmayanti (2014), the work environment involves tools, materials, work methods, as well as recognition at both individual and group levels in the surrounding environment. The importance of paying attention to the work environment is due to its direct influence on employees who are carrying out their duties in a company, organization or institution. According to Siagian in (Sihaloho and Siregar, 2019) "The work environment in companies divided into two dimensions, namely physical and non-physical work environment, as for explanation physical and non-physical work environments are as follows:

1. The physical work environment is all the physical conditions that exist around the workplace and can affect employees. The physical work environment consists of several indicators, namely: Workplace building, adequate work equipment, facilities.
2. The non-physical work environment is the creation of a harmonious working relationship between employees and superiors. The non-physical work environment

consists of several indicators, namely: Relationship between superiors and employees, peer-level relationships, cooperation between employees.

Compensation

Malthis and Jackson (2000) define "Compensation is an important factor that influences how and why people work for an organization and not another others". So compensation is seen as a factor that contributes to the determination or choosing a workplace for an employee. A similar view was expressed by Bangun (2018), who defines compensation as appreciation to employees for the services they provide at work. Hasibuan (2016) mentions several compensation indicators, including salary, which is a monthly payment as appreciation for employee contributions; wages, as compensation based on hours worked; incentives, as direct financial rewards for performance that exceeds standards, allowances, as special rewards for certain sacrifices, and facilities, as a means of support provided by the organization.

Performance

Mangkunegara (2017) defines performance as the results obtained by employees, including quantity and quality, in carrying out the duties and responsibilities set by the company. According to Robbins (2015), there are employee performance indicators that are commonly used in companies, including work quantity, which shows the amount of work that has been completed by individuals or groups according to company standards; work quality, which emphasizes achieving quality standards set by the company in each task, timeliness, which measures the extent to which tasks are completed according to the established deadlines; and work commitment, which reflects employee loyalty and responsibility towards the company where they work. According to Mangkunegara in (Kusjono and Ratnasari, 2019) performance is a result

work in quality and quantity achieved by an employee by carrying out his duties in accordance with the responsibilities given to him.

Relationship Between Variables

Influence Environment Work On Performance

The work environment is a supporting factor that influences maximum employee performance. If the work environment is less than conducive and adequate, this can also affect employee performance, but on the other hand, if the work environment is comfortable and the facilities are adequate, employee performance will increase. Research conducted by Kusuma, Rini, Swasti (2022) shows that the work environment has a positive effect on performance at CV Bayu Putra Aji Sidoarjo.

H 1: The work environment has a positive effect on employee performance at the Surya Market Regional Company in Surabaya City.

Influence Compensation On Performance

The level of success of the compensation provided by the company to employees can be seen in the increasing quality of employee performance. This can create employee work effectiveness and efficiency in the company's budget, as well as determining the company's survival to be able to compete competitively. Mismatches in the compensation received by employees can have a huge influence on employee performance, such as work refusal, demonstrations, and job transfers. According to Risqon & Purwadi (2012) who stated that compensation does not have a significant effect on the performance of Perhutani KPH

Mantingan office employees. This is in contrast to research conducted by Kusuma, Rini, Swasti (2022) which states that financial compensation has a positive effect on performance at CV Bayu Putra Aji Sidoarjo.

H2: compensation has a negative effect on employee performance at the Surya Market Regional Company in Surabaya City .

RESEARCH METHODS

Definition Operational

The dependent variable used in this research is performance (Y) , while the independent variable used in this research is the work environment (X1) and compensation (X2) . Performance is the result of the quantity and quality achieved by employees in carrying out their duties and responsibilities that must be given to the company . The indicators used to measure performance are: quantity of work, quality of work, timeliness, and work commitment .

According to Sedarmayanti (2014), the work environment involves tools, materials, work methods, as well as recognition at both individual and group levels in the surrounding environment . The indicators used to measure the work environment are work atmosphere , relationships with co-workers , and availability of work facilities .

Hanggraini (2012) defines compensation as all forms of rewards received by employees as appreciation from the company for contributions to work . Indicators used to measure compensation are salary , wages , incentives , allowances , and facilities .

Population and Sample

The population in this research are employees of the Surabaya Surya Market Regional Company. Based on the data that has been obtained, there are 43 employees at the Pasar Surya Surabaya Regional Company . The sampling method in this research used the *saturated sampling method* or census. Therefore, the sample in this study was all employees at the Surabaya Surya Market Regional Company totaling 43 employees .

Data collection technique

In this research, data was collected through two main methods, namely distributing questionnaires and literature study. Questionnaires were used to collect primary data from respondents, while literature studies were carried out by extracting information from various written sources such as journals, articles and other literature, both in print and electronic form. The data analysis process was carried out using the *Structural Equation Modeling - Partial Least Squares* (SEM-PLS) method via SmartPLS 3.0 software. The variables in this study were measured using an ordinal scale, with a Likert scale weighting technique.

RESEARCH RESULTS AND DISCUSSION

Analysis Validity and Reliability

Convergent validity is a method used to assess the validity of each indicator which is part of the latent variable in a research model. An indicator is considered valid if it has an outer loading value greater than 0.70. In other words, this value reflects the extent to which the indicator can accurately measure the concept referred to in the latent variable. Meanwhile, *discriminant validity* aims to ensure that each concept representing a latent variable is valid and suitable for investigation. The discriminant validity evaluation process involves comparing the *Square Root of Average Extracted* (AVE) value of each construct with the correlation between that construct and other constructs in the model. If the AVE value exceeds 0.50, it can be considered that the construct is discriminantly valid. With this approach, research can ensure that the latent variables measured have adequate validity both convergently and discriminantly.

Table 2 Outer Loading 1

	Employee Performance (Y)	Compensation (X2)	Work Environment (X1)
X1.1			0.811
X1.2			0.738
X1.3			0.420
X2.1		0.901	
X2.2		0.372	
X2.3		0.706	
Y.1	0.892		
Y.2	0.824		
Y.3	0.889		
Y.4	0.661		

Source: SmartPLS 3.0 output

From the results data processing with Smart PLS shown in the Outer Loading Table above, that indicators X1.3 on the Work Environment variable *and* these need to be eliminated or removed from the model. The results of data processing to obtain *the loading factor value* after the X2.3 indicator has been eliminated can be shown in the table following :

Table 3 Outer Loading 2

	Employee Performance (Y)	Compensation (X2)	Work Environment (X1)
X1.1			0.812
X1.2			0.739
X2.1		0.902	
X2.3		0.689	
Y.1	0.743		
Y.2	0.672		
Y.3	0.746		
Y.4	0.666		

Source: SmartPLS 3.0 output

From table 3, it can be seen that all the indicators that form a construct have a *factor loading / original sample* (O) value greater than 0.70. This shows that each indicator has a high

level of suitability as a good representation for the corresponding variable. With this adequate *factor loading* value, it can be concluded that all indicators are reliable and effective in measuring and reflecting the concept referred to in each related variable. Thus, these results provide confidence that these indicators have met the validity standards required to be a good representation in construct analysis.

Table 3 Average Variance Extracted (AVE)

	<i>Composite Reliability</i>	<i>Average Variance Extracted (AVE)</i>
Employee Performance (Y)	0.798	0.597
Compensation (X2)	0.787	0.653
Work Environment (X1)	0.752	0.603

Source: SmartPLS 3.0 output

Construct reliability is measured through the *composite reliability value*, where a construct is considered reliable if the *composite reliability value* exceeds 0.70, indicating that the indicator is consistent in measuring the corresponding latent variable. The test results show that the constructs of Work Environment, Compensation and Employee Performance meet the reliability criteria with a *composite reliability value* greater than 0.70. All constructs also meet the criteria for discriminant validity with an *Average Variance Extracted (AVE)* value above 0.50, confirming that all latent variables in this research model can be considered valid and reliable. Thus, the results of the analysis conclude that all variables measured in this study are reliable and suitable for further analysis.

Analysis R-Square

R-Square is a number that reflects how much variability in an endogenous latent variable can be explained by an exclusively exogenous latent variable. As an interpretation guide, an *R-Square value* of 0.75 indicates a strong model, 0.50 indicates a moderate model, and 0.25 indicates a weak model. Thus, the higher the *R-Square value*, the greater the contribution of exogenous variables to variations in endogenous variables.

Table 4 R-Square

	<i>R-Square</i>
Employee performance	0.396

Source: SmartPLS 3.0 output

With an R2 value of 0.396, it can be interpreted that the research model is able to explain around 39.6% of the variation in the Employee Performance phenomenon. The remainder, around 60.4%, is attributed to other factors that have not been included in the model as well as error factors. This means that 39.6% of employee performance is influenced by the work environment and compensation, while 60.4% is influenced by other variables that have not been included in the model. This shows that there are still other factors that contribute to employee performance that have not been considered in this research.

Hypothesis testing

Table 5 Path Coefficients (Mean, STDEV, T-Values, P-Values)

	<i>Original Sample (O)</i>	<i>T Statistics (O/STDEV)</i>	<i>P Values</i>
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Compensation (X2) -> Employee Performance (Y)	0.064	0.313	0,754
Work Environment (X1) -> Employee Performance (Y)	0.593	3,352	0.0 01

Source: SmartPLS 3.0 *output*

The Influence of the Work Environment on Employee Performance

From the results of data analysis using Smart PLS, it can be concluded that the Work Environment variable (X1) has a positive and significant influence on Employee Performance. These findings support the first hypothesis which states that improvements in the Work Environment will contribute positively to increasing Employee Performance. A work environment is considered good or appropriate when it allows people to work optimally, healthily, safely and comfortably (Nursasongko, 2012). This concept is in accordance with performance theory, which states that a supportive work environment can increase employee effectiveness, utilize their knowledge, skills and competencies, and optimally utilize resources to provide high quality services.

In the work environment, the indicator that has the highest *loading factor compared to other indicators is the X1.1 indicator*. This indicator is a poor working atmosphere which can reduce employee performance. The work atmosphere includes all the conditions that exist around the employee are doing work that can affect the employee's current performance Work. The working atmosphere includes lighting, temperature, quietness and etc. The working atmosphere in the company can be seen from the large piles of chairs and furniture scattered around the employee's workplace, disturbing the comfort of work. The room temperature feels stuffy because the room is too small and is filled with a large employee capacity, there is minimal air circulation, and there is no AC on, which causes the room to become hot, and the area of the employee's workplace is inadequate, thereby limiting the space for employees to move. Therefore, the working atmosphere includes lighting, temperature, quietness and so on. From a non-physical perspective, it was found that relationships between employees were still not good because many fellow employees did not greet each other and employees were not happy with the strengths of other employees, so that relationships between employees were less harmonious which caused comfort at work to decrease. This causes employees to have a poor work environment and results in decreased employee performance.

The work environment influences employee performance positively, which means that if work environment variables increase, employee performance will increase. This is in line with research from Sunarsi *et. al.* (2020), Sugiarti (2020), and Oktavia & Fernos (2023) which state that the work environment has a positive and significant influence on employee performance. However, this research is not in line with research from Hartati *et. al.* (2020) and Safira & Rozak (2020) which state that the work environment has a negative influence to performance employee .

The Effect of Work Compensation on Employee Performance

Based on the research results, compensation has a positive but not significant influence on employee performance. This result, that increasing compensation will have a positive impact on employee performance, does not receive support. This means that even though employees receive high compensation, this does not significantly improve their performance. Compensation is defined as an award or reward, both in financial and non-financial form, given to employees as recognition for their contribution or services towards achieving organizational goals (Marwansyah, 2012) .

Compensation in the form of salary has the greatest contribution to improving performance. However, judging from the 2020-2022 RKAP (Company Work Plan and Budget) data , it shows that there is a decrease in the income that the Pasa Surya Regional Company should receive. This decrease resulted in the allocation of funds that could have been provided as compensation, but were used as additional costs in the RKAP (Company Work Plan and Budget) . Therefore, the company sacrifices periodic salary increases every 8 years.

Based on facts on the ground, employee compensation at the Surya Market Regional Company does not have a significant impact on performance because judging from the benefits and incentives provided it is in line with what employees expect. Even though the salary given does increase every 8 years and that is the problem. However, it can still be covered by allowances and incentives given according to time and value. Compensation in the form of allowances and incentives is provided well by the company. So compensation does not have a significant effect on employee performance.

Employee performance is one of the most important factors that must be considered by the company, because if employees provide good performance then this will determine the success of the company's goals and vision and mission. One of the factors that can influence employee performance is compensation. Fair and appropriate will make employees feel appreciated and enthusiastic about doing their work and improving their performance. Compensation affects employee performance positively, this means that if the compensation provided is better, employee performance will also increase.

Compensation affects employee performance positively, which means that if the compensation variable increases, employee performance will increase. This is in line with research from Sari *et. al.* (2020) which states that compensation has no significant effect on performance. However, this research is not in line with research from Sari & Ardana (2016) which states that compensation has a negative influence on employee performance as well as research by Arifudin (2019), Armantari *et. al.* (2021) and Sutrisno *et. al.* (2022) which states that compensation has a positive and significant influence to performance employee .

CONCLUSION

Based on the test results using PLS to examine the influence of the work environment and compensation on employee performance at the Surya Market Regional Company, Surabaya City, it can be concluded that the work environment has a contribution to the performance of employees at the Surya Market Regional Company, Surabaya City. This is shown by the work environment variance having a positive and significant effect on the performance of employees of the Surya Market Regional Company, Surabaya City . Meanwhile, compensation does not contribute to the performance of the employees of the Surabaya City Solar Market Regional Company. This is shown by the compensation variables which have no significant effect on the performance of the employees of the Surabaya City Solar Market Regional Company From the research results, several suggestions can be put forward that can be considered and used as

material in making decisions in the future . It is hoped that the Surabaya City Solar Market Regional Company will pay attention working atmosphere by maintaining and repairing facilities and infrastructure, arranging the layout of office furniture and creating good relationships with fellow employees. Apart from that, to improve employee welfare, it is hoped that the Surabaya City Surya Market Regional Company can review the compensation provided, especially the salaries received by employees of the Surya Market Regional Company. The Surabaya City Solar Market Regional Company needs to review its structure and wage scale periodically, taking into account the Company's capabilities and productivity.

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