The Mediating Role of Job Satisfaction and Organizational Commitment in Influencing Entrepreneurial Orientation, Compensation Structure, Organizational Culture on Employee Performance

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ABSTRACT

The purpose of this paper is to explain the effect of organizational orientation, compensation structure and organizational culture on employee performance in driving job satisfaction and organizational commitment. A literature review was conducted to determine the variables that make up the conceptual model. The expected results are a positive correlation between compensation structure and organizational commitment and job satisfaction, as well as the mediating role of organizational commitment on organizational alignment and employee performance, the mediating role of organizational alignment on compensation structure and employee performance, job satisfaction on compensation structure and employee performance, the mediating role of job satisfaction on organizational culture and employee performance. This study explains whether compensation structure, organizational commitment, organizational culture, and job satisfaction can change the way employees work better in an organization. The researcher hopes that this study can understand the importance of compensation structure on employee performance for the company. This paper is also expected to provide theoretical and practical input and potentially be used in future research.

Keywords: Job Satisfaction, Organizational Commitment, Entrepreneurial Orientation, Organizational Culture on Employee Performance.

I. INTRODUCTION

Change management in an organization is the capability to the multidimensionality and complexity of the concept of presentation is often overlooked. However, in today's world, employee performance is widely recognized as a product of ability and motivation, which is used to motivate employees to achieve the best results Soomro and Shah (2019). Organizational commitment is also an important factor in achieving organizational results. At the same time, the attitudes and behaviors of these individuals show a strong tendency to bring creative and innovative changes in search of new ventures and avenues (Soomrob & Shah, 2019).

Entrepreneurial orientation is one of the most promising areas of entrepreneurship research Montiel Campos (2018). Entrepreneurial orientation can be defined as an organizational characteristic that helps the organization continue the entrepreneurial behavior model with new outcomes, where new participants can be associated with new products, services, technologies, markets, or business models (Covin & Wales, 2019; Lumpkin & Dess, 1996). Organizational culture encompasses the collective values and core expectations defined in the "practices" of the organization. These organizational practices include rituals, behavioral norms, symbols, rules, language, routines, stories, and power building (Soomro & Shah, 2019). An organization is a group of people working in an organized manner to achieve a common goal.

Therefore, organizations need employees who are mentally committed to their current and future work (Ashraf, 2020). Compensation structures can be classified into three types of pay: job-based pay, skill-based pay, and performance or competency-based pay. The most common and traditional approach to compensation is referred to as job-based pay which is determined by the difficulty, responsibility and relative value of a job (Leritz, 2012, Shaw et al., 2005), while skill-based pay is determined by the employee's skills and knowledge (Shaw et al. 2005). Job satisfaction is an important part of employees' commitment to the organization they work for Martin and Kaufman (2013). However, job satisfaction is seen as a specific job-related issue, whereas engagement is a broader organizational response (Bashir & Gani, 2019). Job satisfaction can therefore be seen as more dynamic than organizational commitment. In fact, both variables are very important in determining employees' attitudes towards the organization. When an employee's mental security about the workplace is positive, this has positive consequences in terms of organizational performance and productivity, and a lack of adequate job satisfaction can lead to demotivation, which reduces organizational commitment (Bashir & Gani, 2019; Eslami & Gharaikhani, 2012).

The SME sector is highly flexible and able to adapt to any circumstance. Its’ hard structure can be the capital that pulls the economic cart. For example, the food and tourism sectors,
which receive only a limited share of public spending, can rely on expanding economic activity. And this can be a surefire formula to minimize possible layoffs or take advantage of the abundant labor market during the Covid-19 pandemic. Since the first case was detected at the end of 2019, the ongoing Covid-19 pandemic has had an unprecedented impact on all sectors of the economy, resulting in a general business environment characterized by uncertainty, complexity, and unpredictability. Surakarta city after the end of the implementation of Covid-19, many major events have arrived in Surakarta city and also many newly opened tours, which encourages many tourists to go to Surakarta to see tourist attractions.

Based on this background, this study attempts to examine the influence of entrepreneurial orientation, compensation structure, organizational culture on employee performance in driving job satisfaction and organizational commitment in the SME sector in Surakarta.

II. LITERATURE REVIEW

A. Entrepreneurship Orientation

Entrepreneurial orientation is a construct that combines entrepreneurship and strategic management. Strategic management requires a firm to have a competitive advantage and use it in a specific environmental context, while entrepreneurship seeks competitive advantage through product, process, and market innovation (Kuratko & Audretsch, 2009).

B. Employee Performance

Employee performance is an important issue that requires attention from superiors, subordinates, coworkers and oneself. The higher the employee's performance, the higher the performance in the organization Robbins (2001) employee performance is the real result seen by everyone as work done by individuals compared to generally established criteria.

C. Organizational Commitment

Organizational commitment is usually understood as a psychological bond between an employee and an organization that motivates employees to stay in the organization (Meyer et al., 2012).

D. Organizational Culture

Organizational culture is the idea of viewing an organization as a culture with a system of shared meanings shared by members, which is a relatively new phenomenon (Robbins, 2007).

E. Compensation Structure

Compensation is a combination of all cash incentives and a combination of benefits that employees receive from the Company and is the total compensation of individual employees (Ashraf & Joarder, 2010; Jeanette et al., 2013; Tessaema & Soeters, 2006).

F. Job Satisfaction

Job satisfaction is a comfortable or positive emotional state resulting from an evaluation of one's work experience (Locke, 1976). Meanwhile, job satisfaction itself shows how satisfied an employee is with his role or job in the organization.

III. FRAMEWORKS AND HYPOTHESIS

The next step in this research is to describe the research hypothesis and problem solving to be more focused.

Research conducted by Soomro and Shah (2019) showed an insignificant relationship between entrepreneurial orientation and employee performance. In perception, employees cannot produce and discover new products, new markets, and distribution channels to compete and improve business performance (Soomro & Shah, 2019). Based on these findings, there is research on the relationship between entrepreneurial orientation and employee performance in developing a positive relationship that is less focused because there is a moderate relationship between organizational structure, leadership style and employee performance (Tzokas, 2001). Therefore, this study suggests:

H1: There is a positive influence between entrepreneurial orientation and employee performance.

According to Simon et al. (2011), Commitment can bring benefits to companies to overcome problems related to entrepreneurship. Lumpkin (1996) suggests that entrepreneurial orientation between individuals and organizations can be developed through market share, sales and commitment. However, investor satisfaction is created by entrepreneurship. So, the following hypothesis is proposed:

H2: There is a positive influence between entrepreneurial orientation and organizational commitment.

Research conducted by Soomro and Shah (2019) produces a significant influence between organizational commitment on employee performance. Theory developed by Meyer and Allen (1991) emphasizes that employees who enthusiastically contribute to the success of the organization significantly improve their performance, resulting in a hypothesis of the form:

H3: There is a positive influence between organizational commitment and employee performance.

Research results of Soomro and Shah (2019) show that SME employees are more engaged and satisfied with the organizations they work for.
According to Norris and Niebuhr (1983), job satisfaction refers to an effective response to the work environment, although organizational commitment is a more durable and comprehensive factor than job satisfaction. So, the research proposes a hypothesis:

**H4: There is a positive influence between organizational commitment and job satisfaction.**

Research by Soomro and Shah (2019) creates a significant influence between organizational culture and job satisfaction. Organizational culture is embodied in the guiding values of the organization. These values are maintained and developed by the organization's employees guiding the organization's human resource management practices (Schein, 1992). Therefore, this study proposes:

**H5: There is a positive influence between organizational culture and job satisfaction.**

Research by Soomro and Shah (2019) resulted in a significant influence between job satisfaction on employee performance. For several years, there has been a strong belief from company managers that employees who are satisfied with their jobs provide higher performance than dissatisfied employees (Okta et al., 2015). In the perception of Gomes (2000), job satisfaction increases company performance and size. Therefore, this study proposes:

**H6: There is a positive influence between job satisfaction and employee performance.**

Han and Verma (2012), and Chaterina and Intan (2012) found a general (positive) relationship between organizational culture and employee performance. In addition, cultural dimensions of practical factors such as uncertainty avoidance, future orientation, gender and power distance, equality, and people orientation are highly correlated with employee performance (Gupta, 2011). Therefore, this study proposes:

**H7: There is a positive influence between organizational culture and employee performance.**

Compensation paid to employees must be reasonable and fair because it can increase the ability of employees to increase work productivity in return for their job satisfaction (Kadarisman, 2016). There are many research papers conducting the relationship between compensation structure and employee job satisfaction in different sectors of the economy. Neog (2018), Ong et al. (2014), Saman (2020), and Shortland (2018) examined the impact of compensation on job satisfaction and employee performance in the mining sector and in oil and gas companies, respectively. The results of this study indicate that compensation structure is significantly positively related to job satisfaction. Therefore, this study suggests:

**H8: There is a positive influence between compensation structure and job satisfaction.**

There are a number of empirical studies examining the relationship between compensation structure and organizational commitment (Kee et al., 2016; Nawab, 2011). Kee et al. (2016) examined the relationship between financial rewards and organizational commitment in the Malaysian and Mexican banking sectors. The results of the two studies show that financial compensation in both developing countries has a strong positive correlation with bankers' organizational commitment. Ashraf (2020) examined the relationship between employee compensation and organizational commitment in the small and medium enterprise (SME) sector of Bali Province in Indonesia and found a positive relationship between the two. Therefore, this study proposes:

**H9: There is a positive influence between compensation structure and organizational commitment.**

According to Soomro and Shah (2019) that employees become unable to generate and discover new products, new markets, and distribution channels to compete and improve organizational performance. Research by Soomro and Shah (2019) emphasized that interviewees are committed to generating profits and addressing organizational issues through entrepreneurial orientation. This evidence suggests that organizational commitment plays a mediating role in the relationship between organizational orientation and employee performance. Therefore, this study suggests:

**H10: Organizational commitment has a role in mediating the relationship between entrepreneurial orientation and employee performance.**

Research by Soomro and Shah (2019) resulted in a significant influence between organizational commitment on employee performance. A number of empirical studies have examined the relationship between compensation structure and organizational commitment (Bhatti, 2012; Kee, 2016; Nawab, 2011). Kee (2016) examined the relationship between financial rewards and organizational commitment in the Malaysian and Mexican banking sectors. This evidence suggests that organizational commitment mediates the relationship between compensation structure and employee performance. Despite extensive searches, all available research evidence found that organizational commitment can mediate between the two variables. Therefore, this study suggests:

**H11: Organizational commitment has a role in mediating the relationship between compensation structure and employee performance.**

Research by Ashraf (2020) among compensation structures has a significant effect on job satisfaction. As mentioned earlier, compensation is an important factor that increases employee job satisfaction in an organization. The mediating role of organizational commitment (Cao et al., 2020; Supartha et al., 2018). There are several empirical studies that show the mediating role of job satisfaction (Devonish, 2018; Dinc, 2017; Saleem, 2014; Valaei & Razaei, 2016) under different HRM factors. However, research mediating job satisfaction between salary structure and organizational commitment is scarce. At the same time, there are many studies showing a significant positive relationship between job satisfaction and organizational commitment. There are many studies that show a significant positive direct relationship between rewards and organizational commitment (Kee, et al., 2016; Reynoso & Ahmad, 2016; Suryani et al., 2019). Therefore, this study proposes:

**H12: Job satisfaction has a role in mediating the relationship between compensation structure and employee performance.**

Research by Soomro and Shah (2019) created a significant influence between organizational culture and employee performance. These good and bad views then impact employee job satisfaction, which in turn affects the strength of the evolving corporate culture. Most research in this area confirms the positive and significant influence of organizational culture on job satisfaction (Bigliardi et al., 2012; Ilham, 2018; Sabri et al., 2011; Shah et al., 2011). Over the years there has been a strong belief among business leaders that happy employees perform better than unhappy employees (Okta, 2015). Therefore, this study proposes:

**H13: Job satisfaction has a role in mediating the relationship between organizational culture and employee performance.**

IV. METHODS

This research is included in quantitative research. Population is a combination of items in the form of events, characteristics or similar individuals who are the subject of research because they are considered research phenomena. The population of this study were SME employees in Surakarta. Samples are items that are part of the population (Cooper & Schindler, 2014). Sampling in this study using purposive sampling technique.

The types of data in this study are primary data and secondary data. Primary data was obtained by distributing questionnaires to respondents via Google form. Variable measurement on a Likert scale. The Likert scale is used to assess the attitudes, opinions, and perceptions of individuals or groups of people about social phenomena. The results for each question are given on a 5-point Likert scale, with a score of 1 for "strongly disagree" and 5 for "strongly agree" (Sekaran & Bougie, 2016).

This research uses the SEM-PLS analysis model or structural equation model with the SmartPLS application. The first step in this analysis is the design of external and internal models. External model construction measures indicators and paths that connect latent variables. External model criteria by measuring convergent validity, discriminant validity, and construct reliability. The internal model or structural model is determined by the research hypothesis. The internal model criteria are the coefficient of determination (R2) and the path coefficient. Hypothesis testing is done by comparison. The alpha (α) value used in this study is 5% with a t-statistic value of 1.96. If the significance probability value ≤ 5% or the t-statistic value> 1.96, the hypothesis is supported.

V. CONCLUSIONS

Theoretical and practical implications are based on this research as material for further research. The conceptual model of this research offers an alternative model that is different from previous research where mediation of job satisfaction and organizational commitment for the company affects organizational orientation, compensation structure and organizational culture on employee performance in the company. This conceptual model is a role model that can be used as a reference and applied to organizational changes that occur among SME staff in Surakarta. The contribution of this research can provide guidance to leaders and owners of organizations to improve employee performance by keeping them engaged, satisfied and focused by developing a cohesive and supportive organizational culture.

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