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THE EFFECTS OF COMPENSATION, WORK MOTIVATION, AND EMPLOYEE COMPETENCE ON EMPLOYEE PERFORMANCE (A STUDY OF MILLENNIAL AND GENERATION Z EMPLOYEES AT PT JASA TIRTA ENERGI)

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Abstrak: *Millennials and Generation Z now constitute the majority of Indonesia's workforce. However, both generations face various challenges that may affect their performance, making it important to identify the factors that drive employee performance. This quantitative study aims to analyze the effect of compensation, work motivation, and employee competence on the performance of Millennial and Generation Z employees at PT Jasa Tirta Energi. The sample consisted of 35 respondents selected using a total sampling technique. Data were collected through a questionnaire that had passed validity and reliability testing and were analyzed using multiple linear regression with the assistance of IBM SPSS Statistics version 26. The findings show that compensation has a positive and significant effect on employee performance, indicating that a fair and transparent compensation system serves as a strategic instrument for enhancing employee performance. Work motivation does not have a significant effect on employee performance, indicating that work motivation is perceived as a basic standard in the workplace and, therefore, does not directly influence employee performance. Employee competence has a positive and significant effect on employee performance, indicating that competence is a fundamental factor in determining the quality of employee performance. Based on these findings, the organization is encouraged to prioritize employee competence development and improvements to its compensation system to enhance employee performance in a measurable and sustainable manner.*

Kata kunci*: Compensation, Work Motivation, Employee Competence, Employee Performance, Social Exchange Theory, Millennials, Generation Z*

INTRODUCTION

The sustainability of any organization ultimately rests on the quality of its human resources. Business strategy, technology, and organizational structure alone cannot guarantee institutional success unless the individuals within an organization are able to contribute optimally, professionally, and with integrity. As business competition intensifies, organizations are increasingly required to ensure that every employee performs in accordance with the roles and responsibilities assigned to them, since employee performance functions as the operational bridge between organizational strategy and organizational outcomes.

Concern over the quality of human resources in Indonesia is reinforced by recent national data. The Kadin Indonesia Institute (2026) reported that workforce-related issues consistently rank among the top five challenges facing Indonesian businesses. Citing Gallup's findings, the report noted that global employee engagement stood at 22% in 2025, while

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Indonesia recorded a slightly higher figure of 27%, marginally above the Southeast Asian regional average of 26%. Although this places Indonesia in a relatively better position within the region, the figure still indicates that the majority of the national workforce remains disengaged from their work. This condition is directly relevant to employee performance, as Boccoli et al. (2022) demonstrated that high employee engagement sustains individual performance and drives organizational continuity. Given that engagement and performance are inseparable, declining engagement signals a potential performance deficit with direct consequences for organizational productivity and profitability, which is why employee performance remains a critical variable for continued empirical investigation.

Employee performance is a central determinant of organizational sustainability, since firms that can rely on high-quality human resources are better equipped to navigate an ever-changing industrial landscape. Underperformance not only disrupts operational efficiency but also exposes employees to the risk of job loss through workforce reductions that companies commonly implement in response to declining productivity (Nagpal, 2023). Silaen et al. (2021) argue that employee performance is shaped by individual ability, the level of effort exerted, and organizational support, meaning that performance reflects not merely work output but the interplay between employee competence and the organizational systems that sustain it. Prior studies converge on the conclusion that competent and high-performing employees make a significant contribution to organizational goals and sustainable business growth (Desmarini & Ali, 2024; Nong et al., 2024). Based on this theoretical foundation, employee performance is presumed to be influenced by a range of factors, among which compensation, work motivation, and employee competence are considered particularly salient.

The urgency of examining these determinants is amplified by Indonesia's broader integrity landscape. Indonesia's 2025 Corruption Perceptions Index (CPI) stood at 34, placing the country in a category vulnerable to malfeasance (Transparency International, 2026), a condition reinforced by the Corruption Eradication Commission's (KPK) 2025 Integrity Assessment Survey, which recorded a national integrity index of 72.32, still within the vulnerable category (Komisi Pemberantasan Korupsi, 2025). Such conditions are frequently associated with employee dissatisfaction over human resource governance, which in turn affects organizational productivity. Demirgüç-Kunt et al. (2021) found that compensation inequality in the public sector is a significant driver of corruption, and that salary increases can even worsen integrity when inter-position pay structures are highly uneven; in a similar

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vein, Wijaya (2021) reported that compensation misalignment significantly affects fraudulent practices. These findings collectively suggest that compensation is not merely an economic instrument but a governance variable whose fairness has organizational and behavioral consequences that extend beyond individual performance.

This phenomenon becomes especially relevant when examined at the organizational level. PT Jasa Tirta Energi (JTE), a subsidiary of Perum Jasa Tirta I engaged in renewable energy and infrastructure construction in Malang, exhibits a performance dynamic that merits closer empirical attention. In 2024, the company recorded operating revenue of IDR 84.779 billion, or 117.91% of the previous year's realization and 99.90% of its 2024 budget (RKAP). However, in 2025, realized revenue fell to IDR 65.10 billion, only 71.9% of that year's RKAP and 76.8% of 2024's realization. This fluctuation is theoretically linked to human resource productivity in executing operational systems, suggesting that the financial downturn may signal underlying obstacles in work output that warrant evaluation from a human resource management perspective. Field observation further revealed that employees at PT JTE occasionally complete tasks outside regular working hours to meet organizational demands. This indicates that work demands are quite high, as employees are expected to complete their work in accordance with the targets and responsibilities assigned to them. Although a decline in revenue can be influenced by various factors, both internal and external, this situation underscores the urgency of evaluating one of the fundamental aspects of a company's operations, the effectiveness of employee performance. Therefore, employee performance is a relevant and important aspect to examine in efforts to support improvements in the organization's overall performance.

Among the factors presumed to shape employee performance, compensation stands out as a direct determinant. When employees perceive that the compensation they receive is disproportionate to their workload and contribution, this perception is likely to trigger demotivation and diminished commitment, ultimately compromising the quality of work output. Therefore, compensation is not simply a payroll mechanism but a strategic element that must be designed fairly and transparently to sustain consistent performance. Prior studies by Prasetyo et al. (2021) and Afrin et al. (2023) confirm that appropriately designed compensation systems significantly influence employee performance.

Work motivation constitutes a second factor of interest, particularly given the shifting work values of younger generations. The Deloitte Global Gen Z and Millennial Survey (2025) found that only 6% of young employees regard attaining a senior position as their primary

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career goal, while learning and development opportunities together with work-life balance are prioritized instead. The IDN Research Institute (2025) similarly reported that 58% of respondents consider learning and career-development opportunities important, that 54% value supportive colleagues and 48% value supportive supervisors, and that nearly half regard salary commensurate with expertise as important while 48% consider flexible working hours essential for balancing work and personal life. These generational preferences require organizations to adapt strategically if they are to sustain employee motivation, and prior research by Afrin et al. (2023) and Puji Salvano et al. (2023) confirms that motivation, once cultivated through such adaptation, significantly affects employee performance.

Employee competence represents the third factor under investigation. Indonesia's Central Statistics Agency (BPS) data for 2024 indicate that roughly nine million individuals aged 15–24, representing 20.31% of that age cohort, fall into the Not in Education, Employment, or Training (NEET) category (Badan Pusat Statistik Indonesia, 2024), a condition attributed by the Minister of Manpower to a mismatch between the skills possessed by jobseekers and the demands of the labor market (Putri, 2024). This structural gap underscores competency as a fundamental factor shaping the quality of service delivery and task execution, a claim supported by Astarina et al. (2022), Nong et al. (2024), and Pudjowati et al. (2022), all of whom found employee competence significantly influence employee performance.

These three variables, compensation, work motivation, and employee competence, can be analyzed in an integrated manner through Social Exchange Theory (SET), first advanced by Homans (1958). SET conceptualizes every social interaction as an exchange of rewards and costs that shapes behavior within a social group; in an organizational context, the theory posits that healthy working relationships are built on reciprocity, such that fair compensation, motivational support, and competency development elicit heightened commitment and performance from employees in return. This reciprocal logic resonates with Gallup's finding, as reported by the Kadin Indonesia Institute (2026), that employee engagement, the foundation of optimal performance, emerges once employees' basic needs are met, from role clarity and adequate support to opportunities for contribution and growth.

Despite the theoretical coherence of this framework, prior empirical findings on the relationships among compensation, work motivation, employee competence, and employee performance remain notably inconsistent, pointing to an evidence gap that warrants further investigation in new organizational contexts. While Afrin et al. (2023), Astarina et al. (2022),

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and Prasetyo et al. (2021) found compensation significantly affect employee performance, Pudjowati et al. (2022) and Sari and Tukirin (2023) found no such effect, attributing their result to compensation policies pegged merely to the regional minimum wage. A parallel inconsistency characterizes the relationship between work motivation and employee performance. Afrin et al. (2023), Puji Salvano et al. (2023), and Rahma and Dwiridotjahjono (2023) reported significant effects, whereas Pudjowati et al. (2022) and Hidayat (2021) found none, suggesting that motivation's influence may be mediated by intervening factors such as morale. The relationship between employee competence and employee performance shows a similar pattern of divergence, with Astarina et al. (2022), Nong et al. (2024), and Pudjowati et al. (2022) reporting significant effects, while Puji Salvano et al. (2023) and Hidayat (2021) found none, the latter attributing this to the underutilization of employees' existing skills and experience. Beyond this evidence gap, a population gap is equally apparent, most prior studies examine employee performance in the aggregate, without considering generational segmentation within the workforce. This omission is particularly important because Millennials and Generation Z currently constitute the majority of Indonesia's workforce, accounting for 58.7% of the total labor force and representing the core demographic groups driving the country's ongoing demographic dividend (Karina, 2026; Zatnika, 2025). The focus on these two generations is justified not only by their numerical dominance but also by the distinct financial challenges they face, which warrant dedicated scholarly attention. The IDN Research Institute (2025) reports that 66% regard the rising cost of living as their greatest financial challenge, with 45% of Millennials citing insufficient income and 41% of Generation Z citing a lack of savings, while 49% place strong importance on salary commensurate with job competency and 44% report work-related anxiety stemming from economic uncertainty. From a behavioral accounting perspective, such financial stress arising from perceived compensation misalignment may impair employees' focus, suppress the expression of their competency, dampen motivation, and ultimately depress performance, generating hidden costs for the organization, most notably through elevated turnover.

Against this backdrop, the present study seeks to examine and explain the effects of compensation, work motivation, and employee competence on the performance of Millennial and Generation Z employees at PT Jasa Tirta Energi. The study offers both theoretical and practical significance. Theoretically, it extends Social Exchange Theory into a generationally differentiated context and contributes a methodological novelty by embedding Romney and Steinbart (2018) accounting data processing cycle, namely data input, data storage, data

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processing, and information output, into the operationalization of the compensation variable, thereby bridging human resource management with accounting information systems in a manner rarely explored in prior HRM literature. Practically, the findings are intended to inform PT Jasa Tirta Energi's management, as well as other state-owned enterprises facing comparable generational and compensation-related challenges, in designing more effective, evidence-based policies for compensation, work motivation, and the development of employee competence that can optimize the contribution of Millennial and Generation Z employees toward sustained organizational performance.

THEORITICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Social Exchange Theory

Social Exchange Theory (SET), introduced by Homans (1958), conceptualizes social interaction as an exchange process governed by the benefits gained and the costs incurred. Reciprocity constitutes the core mechanism of the theory. Individuals who receive benefits from an organization feel obliged to reciprocate through more productive work and greater loyalty, and a relationship is sustained only as long as the perceived benefits equal or exceed the perceived costs; when costs outweigh benefits, individuals tend to withdraw or reduce their engagement (Kumar & Shailaja, 2024). In the employment context, benefits may take the form of compensation, recognition, emotional support, and developmental opportunities, while costs include effort, time, and stress; when employees perceive that organizational rewards and support fail to match their sacrifices, their motivation and performance decline accordingly (Homans, 1958).

Within this framework, compensation functions as a form of organizational investment in employees. When an organization provides compensation that is fair, competitive, and proportional to employees' contributions, employees interpret this as the organization fulfilling its exchange obligation, which in turn produces a sense of being valued and a moral obligation to reciprocate through improved performance. Work motivation, similarly, can be understood as a response that emerges when employees perceive favorable treatment, adequate compensation, recognition of achievement, and developmental opportunities, which fosters heightened effort as employees seek to reciprocate positive treatment through better outcomes. Competency likewise occupies an important position within SET. Organizations that provide training and skill-development opportunities are seen as providing a valuable resource, and employees whose competency has been cultivated tend to exhibit higher

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performance out of a sense of obligation to make productive use of that investment. Taken together, SET provides a coherent theoretical foundation for this study, as it explains the relationship between organizations and employees as one built on sustained reciprocity, in which compensation, motivation, and employee competence each represent distinct but interrelated channels through which the exchange relationship is enacted and ultimately reflected in employee performance.

Employee Performance

Employee performance refers to the work outcomes, both quantity and quality, that an individual achieves in fulfilling assigned responsibilities within a specified period (Mangkunegara, as cited in Budiyanto & Mochklas, 2020). It is shaped by the interaction between an individual's ability and motivation (Robbins, as cited in Budiyanto & Mochklas, 2020) and can be understood as a record of success derived from the functions of a particular job or activity over a given period (Bernardin & Russell, as cited in Budiyanto & Mochklas, 2020). Drawing on Mathis and Jackson (as cited in Silaen et al., 2021), performance is influenced by three broad categories of factors, individual ability (talent, interest, and personality), effort expended (motivation, work ethic, attendance, and task design), and organizational support (training and development, equipment and technology, performance standards, and interpersonal relationships). In this study, employee performance is measured using five indicators adapted from Simamora (as cited in Soelistya et al., 2021): quantity, quality, timeliness, creativity, and responsibility.

Compensation

Compensation encompasses all financial and non-financial rewards that employees receive in exchange for their contribution to an organization (Dessler, 2013; Zunaidah et al., 2020). Dessler (2013) distinguishes between direct compensation, including salary, wages, incentives, bonuses, and commissions, and indirect compensation, which includes health benefits, retirement or pension programs, and additional facilities such as company vehicles, meal allowances, and training support. According to Werther and Davis (as cited in Zunaidah et al., 2020), compensation serves multiple strategic objectives, including attracting qualified personnel, retaining current employees, ensuring internal and external equity, reinforcing desired behavior, controlling costs, complying with legal regulations, facilitating mutual understanding, and enhancing administrative efficiency. Ivancevich (as cited in Zunaidah et

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al., 2020) further identifies seven criteria of compensation effectiveness, namely adequacy, equity, balance, cost-effectiveness, security, incentive value, and acceptability to employees.

A distinctive feature of this study's operationalization of compensation is the incorporation of the data processing cycle articulated by Romney and Steinbart (2018) within accounting information systems theory. This cycle comprises four sequential stages, namely data input, data storage, data processing, and information output, that collectively determine the reliability and transparency of the information a system produces. Applied to compensation management, data input involves the collection of employee-related data such as identity, position, tenure, attendance, and work activity; data storage refers to the systematic retention of this information within a human resource information system to support future retrieval and evaluation; data processing entails the automated calculation of compensation components, including tax and insurance deductions, in order to minimize human error and ensure regulatory compliance; and information output culminates in payroll reports that are integrated into the general ledger, providing a transparent and accountable basis for both employee understanding and managerial decision-making. Embedding this cycle within the compensation construct allows the present study to examine not merely the magnitude of compensation but the procedural transparency and reliability of the system through which compensation is administered, an aspect of particular relevance to digitally native Millennial and Generation Z employees, for whom transparency and traceability of information carry substantial weight in shaping fairness perceptions.

Work Motivation

Work motivation is conventionally defined as the internal and external drive that compels an individual to perform diligently in pursuit of organizational goals. Robbins and Judge (2023) describe motivation as a process that explains the intensity, direction, and persistence of an individual's effort toward a goal, while McClelland (1976) frames motivation as an internal drive that propels individuals to meet performance standards, persist despite obstacles, refine their strategies, and respond emotionally to success or failure. McShane and Von Glinow (as cited in Lusiawati, 2022) similarly characterize motivation as an internal force that determines the direction, intensity, and persistence of voluntary action. Maslow's hierarchy of needs (as cited in Lusiawati, 2022) provides a widely used framework for understanding motivation as the sequential fulfillment of physiological, safety, social, esteem, and self-actualization needs, while Herzberg's Two-Factor Theory (as cited in Tarumingkeng,

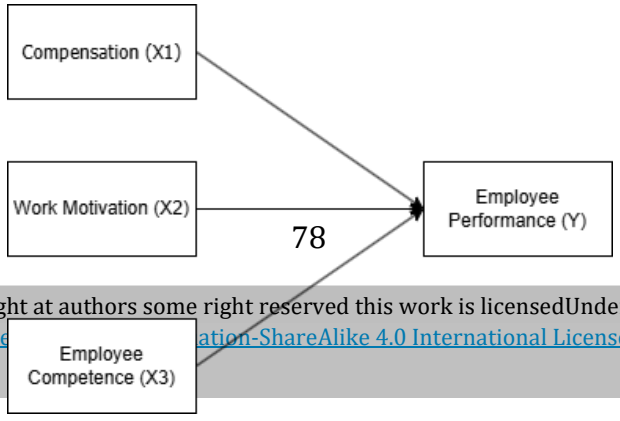
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2025) differentiates hygiene factors, such as company policy, supervision quality, interpersonal relations, working conditions, salary, and job security which prevent dissatisfaction but do not themselves generate satisfaction, whereas motivator factors, such as achievement, recognition, the work itself, responsibility, advancement, and personal growth, which actively enhance satisfaction and intrinsic motivation. In this study, work motivation is operationalized through the five levels of Maslow's hierarchy, namely physiological needs, safety needs, social needs, esteem needs, and self-actualization needs.

Employee Competence

Competency is defined by Spencer and Spencer (as cited in Tsauri, 2013) as an underlying characteristic that is causally related to superior job performance and that can be measured against a criterion-referenced standard. Boyatzis (as cited in Tsauri, 2013) similarly describes competency as an individual's underlying capacity to produce the behavior required to meet job demands within an organization, while Wibowo (as cited in Tsauri, 2013) frames competency as the ability to perform a task in accordance with the skills and knowledge that the job requires. Spencer and Spencer's five-dimensional model, comprising motives, traits, self-concept, knowledge, and skills, distinguishes between visible competencies (knowledge and skills), which are more readily developed through training, and less visible competencies (motives, traits, and self-concept), which represent deeper individual characteristics that nonetheless substantially shape consistent work behavior. According to Prihadi (as cited in Tsauri, 2013), a well-defined competency model serves as a predictor of job success, a basis for recruiting qualified employees, and a foundation for employee assessment and development. This study operationalizes employee competence through these five Spencer and Spencer dimensions.

Figure 1. Research Framework



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Compensation constitutes a key element of human resource management, providing financial and non-financial rewards for employee contributions. Fair and competitive compensation fosters a sense of equity and reinforces appreciation for the effort employees invest in their work. Within Social Exchange Theory, compensation functions as a "reward" that organizations extend to employees, prompting reciprocation through improved performance quality (Homans, 1958); a balanced exchange between cost and reward cultivates a sense of fairness and encourages productive behavior. This view is consistent with Dessler (2013), who emphasizes that compensation, whether direct or indirect, functions as a strategic instrument for shaping employee behavior and must align with organizational objectives to support performance outcomes. Empirical evidence corroborates this relationship, Astarina et al. (2022) found that compensation enhances performance when it is proportional to workload and further amplified by adequate training; Prasetyo et al. (2021) confirmed a significant effect between compensation and employee performance across various Indonesian work sectors; and Afrin et al. (2023) demonstrated that appropriately administered compensation heightens motivation, encourages productive behavior, and improves retention, thereby generating optimal performance outcomes. On this basis, the following hypothesis is proposed:

H1: Compensation has a significant effect on the performance of Millennial and Generation Z employees at PT Jasa Tirta Energi.

Work motivation, whether internally or externally derived, shapes an individual's willingness to exert maximal effort toward organizational objectives and functions as the principal driver of productive work behavior, since it determines the energy, persistence, and commitment employees bring to their tasks. Within the Social Exchange Theory framework advanced by Homans (1958), the relationship between employee and organization is forged through mutually beneficial exchange, when employees perceive that the organization provides fair rewards, developmental opportunities, and a supportive working environment, they reciprocate through heightened motivation and contribution. Maslow's hierarchy of needs

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(as cited in Robbins & Judge, 2023) further suggests that motivation arises from the progressive fulfillment of needs, from physiological and safety needs through social, esteem, and self-actualization needs, whereby the satisfaction of these needs through fair pay, job security, harmonious social relationships, recognition, and developmental opportunities drives employees toward higher performance. Empirical findings lend support to this relationship, Rahma and Dwiridotjahjono (2023) found work motivation closely associated with performance gains; Puji Salvano et al. (2023) reported that work motivation has a significant effect on employee performance; and Afrin et al. (2023) confirmed that motivation significantly enhances performance within the insurance industry. Accordingly, the following hypothesis is proposed:

H2: Work motivation has a significant effect on the performance of Millennial and Generation Z employees at PT Jasa Tirta Energi.

Employee competence functions as a critical predictor of performance. Spencer and Spencer (as cited in Tsauri, 2013) contend that competency encompasses fundamental characteristics, including motives, traits, self-concept, knowledge, and skills, that shape an individual's success in executing job tasks. Employees whose competency aligns with job demands are able to complete their work with greater precision, efficiency, and quality, respond more effectively to challenges, and exhibit behavior consistent with organizational performance standards. Empirical studies reinforce the centrality of this relationship, Astarina et al. (2022) found that competency contributes directly to employee performance, with effects amplified when accompanied by supportive training; Nong et al. (2024) confirmed a significant effect between employee competence and employee performance that extends to organizational-level outcomes; and Pudjowati et al. (2022) similarly reported a significant effect of competency on employee performance. On this basis, the following hypothesis is proposed:

H3: Employee competence has a significant effect on the performance of Millennial and Generation Z employees at PT Jasa Tirta Energi.

RESEARCH METHOD

This study adopts a quantitative research design aimed at testing the hypothesized relationships among compensation, work motivation, employee competence, and employee performance through statistical analysis of numerical data collected via a structured questionnaire (Sekaran & Bougie, 2020). The quantitative approach was selected because the

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study seeks to measure the effect of predetermined independent variables on a dependent variable in a systematic and objective manner, thereby producing a more precise depiction of the phenomenon under investigation.

The research was conducted at PT Jasa Tirta Energi, located at Jl. Bendungan Riam Kanan No. 15–17, Sumbersari, Lowokwaru District, Malang City, East Java. As a state-owned enterprise subsidiary engaged in renewable energy and infrastructure construction, PT JTE was selected as the research site given the relevance of its operational context to the issues examined and the availability of respondents meeting the study's generational criteria.

Population and Sample

The population of this study comprises employees of PT Jasa Tirta Energi belonging to the Millennial generation (born 1981–1996) and Generation Z (born 1997–2012) (Hansari, 2025), totaling 35 employees. Given the relatively small population size, a total sampling technique was employed, whereby the entire population was designated as the study sample. This approach is consistent with Roscoe's guideline (as cited in Sekaran & Bougie, 2020) that sample sizes between 30 and 500 are generally appropriate for most research, and was adopted to maximize representativeness and minimize potential sampling bias.

Data Source and Data Collection Technique

Primary data were collected through a personally administered, closed-ended questionnaire employing a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) (Sekaran & Bougie, 2020). Personal administration was chosen because it allows the researcher to establish direct communication with respondents, clarify the study's objectives, and address any ambiguity in the questionnaire items, an approach particularly suitable given the accessibility of the research site. Secondary data, comprising journal articles, company reports, books, and other relevant internet-based sources, supplemented the primary data. Prior to full-scale distribution, a pilot test involving 34 respondents with characteristics representative of the target population was conducted to assess instrument clarity, validity, and reliability (Johanson & Brooks, 2010); all items demonstrated adequate validity (r-count exceeding the 0.339 threshold) and reliability (Cronbach's alpha exceeding 0.70) at this stage.

Operational Definition of Variables

Four variables were operationalized in this study. Compensation (X1) was defined as

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the totality of financial and non-financial rewards employees receive in exchange for their work and was measured through five indicators: salary, incentives, benefits, facilities, and the data processing cycle (data input, data storage, data processing, and information output), drawing on Romney and Steinbart (2018) and Zunaidah et al. (2020). Work motivation (X2) was defined as the internal and external drive propelling employees toward optimal performance and was measured through Maslow's five-tier hierarchy of needs: physiological, safety, social, esteem, and self-actualization needs (Budiyanto & Mochklas, 2020). Employee competence (X3) was defined as the underlying individual characteristics reflected in consistent work behavior and was measured through Spencer and Spencer's five dimensions: motives, traits, self-concept, knowledge, and skills (Tsauri, 2013). Employee performance (Y), the dependent variable, was defined as the level of work achievement relative to organizational standards and was measured through five indicators: quantity, quality, timeliness, creativity, and responsibility (Simamora, as cited in Soelistya et al., 2021).

Data Analysis Method

Data were analyzed using IBM SPSS Statistics version 26 and proceeded through several stages. Instrument quality was assessed through validity and reliability testing. Validity was examined using Pearson product-moment correlation, with an item deemed valid if its calculated r-count exceeded the critical r-table value or if its significance value was below 0.05 (Ghozali, 2021). Reliability was assessed using Cronbach's alpha, with a coefficient exceeding 0.70 considered indicative of adequate internal consistency (Sekaran & Bougie, 2020). Descriptive statistical analysis was first conducted to characterize the sample and each variable in terms of minimum, maximum, mean, and standard deviation values (Ghozali, 2021). Classical assumption tests were then performed to ensure the regression model's validity. Normality was assessed using the Shapiro-Wilk test, selected on the basis of its superior statistical power for small-to-moderate samples ($n \leq 50$) relative to the Kolmogorov-Smirnov test (Mishra et al., 2019; Razali & Wah, 2011), with a significance value above 0.05 indicating normally distributed data. Multicollinearity was assessed via Tolerance and Variance Inflation Factor (VIF) values, with Tolerance above 0.10 and VIF below 10 indicating the absence of multicollinearity (Ghozali, 2021). Heteroscedasticity was tested using the Glejser test, with a significance value above 0.05 for each independent variable indicating homoscedasticity (Ghozali, 2021). Hypothesis testing was conducted through multiple linear regression analysis, appropriate given the study's involvement of more than

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one independent variable predicting a single dependent variable. The regression model is specified as:

$$Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \varepsilon$$

where Y denotes employee performance, α the constant, β1–β3 the regression coefficients for compensation, work motivation, and employee competence respectively, and ε the error term. The coefficient of determination (R^2 and Adjusted R^2) was used to assess the proportion of variance in employee performance explained by the independent variables collectively, with Adjusted R^2 preferred given the study's relatively small sample size and multiple predictors (Ghozali, 2021). Partial hypothesis testing was conducted via the t-test, with a significance value below 0.05 indicating that an independent variable exerts a statistically significant effect on the dependent variable.

EMPIRICAL FINDINGS/RESULT

a. Instrument Testing Results

1) Validity Test

Table 1. Validity Test

Variable	Item	r-count	r-table	Results
Compensation (X1)	X1.1	0,714	0,334	Valid
	X1.2	0,832	0,334	Valid
	X1.3	0,845	0,334	Valid
	X1.4	0,733	0,334	Valid
	X1.5	0,751	0,334	Valid
Work Motivation (X2)	X2.1	0,658	0,334	Valid
	X2.2	0,730	0,334	Valid
	X2.3	0,720	0,334	Valid
	X2.4	0,865	0,334	Valid
	X2.5	0,793	0,334	Valid
Employee Competence (X3)	X3.1	0,761	0,334	Valid
	X3.2	0,858	0,334	Valid
	X3.3	0,784	0,334	Valid
	X3.4	0,900	0,334	Valid

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Variable	Item	r-count	r-table	Results
	X3.5	0,780	0,334	Valid
Employee Performance (Y)	Y1	0,729	0,334	Valid
	Y2	0,758	0,334	Valid
	Y3	0,877	0,334	Valid
	Y4	0,836	0,334	Valid
	Y5	0,859	0,334	Valid

Source: Research Data (2026)

Validity testing, conducted using Pearson correlation across the 20 items comprising the four research variables, yielded r-values ranging from 0.658 to 0.900, all exceeding the critical r-table value of 0.334 (n = 35, α = 0.05), confirming that all items validly measured their intended constructs.

2) Reliability Test

Table 2. Reliability Test

Variable	Cronbach's Alpha	Results
Compensation (X1)	0,833	Reliable
Work Motivation (X2)	0,809	Reliable
Employee Competence (X3)	0,873	Reliable
Employee Performance (Y)	0,872	Reliable

Source: Research Data (2026)

Reliability testing using Cronbach's alpha produced coefficients of 0.833 for compensation, 0.809 for work motivation, 0.873 for employee competence, and 0.872 for employee performance, all comfortably exceeding the 0.70 threshold and confirming adequate internal consistency across all instruments.

b. Respondent Characteristics

Of the 35 respondents, 68.6% (24 employees) belonged to the Millennial generation and 31.4% (11 employees) to Generation Z, reflecting the company's longer-standing reliance on more experienced employees. In terms of educational

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background, 51.4% held a senior high school diploma, 28.6% held a bachelor's degree, 14.3% held a diploma (D3/D4), and 5.7% held a master's degree, consistent with the company's operational and technical orientation. Regarding tenure, 45.7% of respondents had worked at the company for 1–5 years, 40% for 6–10 years, and 14.3% for less than one year, indicating a workforce with substantial organizational experience and a correspondingly strong understanding of company systems. By division, 34.3% of respondents worked in Operations 1, 31.4% in Operations 2, 25.7% in Finance, HR, and General Affairs, and 8.6% in Planning and Business Development, reflecting the company's operationally weighted workforce distribution.

c. Descriptive Statistics

Descriptive analysis of the four research variables is summarized below.

Table 3. Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Deviation
Compensation (X1)	35	14	25	19,23	2,951
Work Motivation (X2)	35	15	25	20,37	2,545
Employee Competence (X3)	35	15	25	20,37	2,840
Employee Performance (Y)	35	15	25	20,14	2,545
Valid N (listwise)	35				

Source: Research Data (2026)

Compensation (X1) recorded a mean of 19.23 (SD = 2.951), Work Motivation (X2) a mean of 20.37 (SD = 2.545), Employee competence (X3) a mean of 20.37 (SD = 2.840), and Employee Performance (Y) a mean of 20.14 (SD = 2.545). For all four variables, the mean exceeded the standard deviation, indicating that respondents' perceptions were homogeneous and clustered closely around the average rather than widely dispersed. The comparatively modest mean for compensation suggests that employees' perceptions of the fairness, transparency, and payroll-processing effectiveness of the compensation system, while adequate, have not yet reached an optimal level, whereas the higher means for work motivation and employee competence suggest that employees' developmental and

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social needs are being met relatively well and that employee competence is generally perceived as being at a high level.

d. Classical Assumption Tests

1) Normality Test

Table 4. Normality Test

Variable	Shapiro-Wilk		
	Statistic	df	Sig.
Compensation (X1)	0,949	35	0,102
Work Motivation (X2)	0,953	35	0,139
Employee Competence (X3)	0,943	35	0,071
Employee Performance (Y)	0,944	35	0,073

Source: Research Data (2026)

Normality testing via the Shapiro-Wilk test produced significance values of 0.102 for compensation, 0.139 for work motivation, 0.071 for employee competence, and 0.073 for employee performance, all exceeding the 0.05 threshold and confirming that the data for each variable are normally distributed.

2) Multicollinearity Test

Table 5. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	Compensation (X1)	0,496	2,015
	Work Motivation (X2)	0,371	2,697
	Employee Competence (X3)	0,396	2,522

Source: Research Data (2026)

Multicollinearity testing indicated Tolerance values of 0.496, 0.371, and 0.396, and VIF values of 2.015, 2.697, and 2.522 for compensation, work motivation, and employee competence, respectively. All values fell within the acceptable ranges (Tolerance > 0.10; VIF < 10), confirming the absence of

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multicollinearity among the independent variables.

3) Heteroscedasticity Test

Table 6. Heteroscedasticity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,005	1,598		1,255	0,219
	Compensation (X1)	0,083	0,092	0,226	0,899	0,375
	Work Motivation (X2)	-0,095	0,124	-0,222	-0,766	0,450
	Employee Competence (X3)	-0,001	0,107	-0,002	-0,009	0,993

Source: Research Data (2026)

Heteroscedasticity testing via the Glejser method produced significance values of 0.375, 0.450, and 0.993 for compensation, work motivation, and employee competence, respectively. All values exceeded 0.05, indicating the absence of heteroscedasticity in the regression model.

With all classical assumptions satisfied, the regression model was deemed appropriate for hypothesis testing.

e. Coefficient of Determination

Table 7. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,749[a]	0,561	0,518	1,46333

Source: Research Data (2026)

The regression model produced an R value of 0.749, an R^2 of 0.561, and an Adjusted R^2 of 0.518, indicating that compensation, work motivation, and employee competence jointly explain 51.8% of the variance in employee performance after adjusting for the number of predictors and sample size, a moderate level of explanatory power. The relatively small gap between R^2 and Adjusted R^2 (0.043) suggests minimal overfitting and confirms that all three predictors make a meaningful contribution to the model. The remaining 48.2% of variance is

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attributable to factors outside the model, such as work morale, leadership style, work environment, and job satisfaction, representing avenues for future research.

f. Hypothesis Testing (Partial t-Test)

Table 8. t-Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8,257	2,087		3,958	0,000
	Compensation (X1)	0,270	0,121	0,377	2,234	0,033
	Work Motivation (X2)	-0,012	0,162	-0,014	-0,074	0,941
	Employee Competence (X3)	0,341	0,140	0,459	2,429	0,021

Source: Research Data (2026)

The estimated regression equation is:

$$Y = 8.257 + 0.270X1 - 0.012X2 + 0.341X3$$

Compensation (X1) produced a t-value of 2.234 (t-table = 2.040) with a significance level of 0.033 (< 0.05), leading to the rejection of H0 and acceptance of H1: compensation exerts a positive and significant partial effect on employee performance. The coefficient of 0.270 indicates that each one-unit increase in compensation is associated with a 0.270-unit increase in employee performance, holding other variables constant.

Work motivation (X2) produced a t-value of −0.074 with a significance level of 0.941 (> 0.05), leading to the acceptance of H0 and rejection of H2: work motivation does not exert a significant partial effect on employee performance.

Employee competence (X3) produced a t-value of 2.429 with a significance level of 0.021 (< 0.05), leading to the rejection of H0 and acceptance of H3: employee competence exerts a positive and significant partial effect on employee performance. With a standardized coefficient (Beta) of 0.459, the highest among the three predictors, employee competence emerges as the most dominant variable influencing employee performance in this model.

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Discussion

The Effect of Compensation on Employee Performance

Consistent with H1, compensation exerts a positive and significant effect on the performance of Millennial and Generation Z employees at PT Jasa Tirta Energi. Within Social Exchange Theory, the employee–organization relationship is fundamentally reciprocal, employees who receive fair and adequate compensation tend to respond by delivering more optimal contributions in return. This aligns with Dessler (2013) contention that compensation, encompassing both direct and indirect payment, functions as a strategic instrument through which fairly and transparently designed systems directly enhance productivity and performance. The result is further corroborated by Astarina et al. (2022), who found that compensation elevates performance when proportionally administered relative to workload, and by Afrin et al. (2023), who demonstrated that appropriately administered compensation strengthens motivation, encourages productive behavior, and improves retention.

Notably, although compensation's effect on performance was statistically significant, its descriptive mean (19.23) indicates that employee perceptions of the compensation system remain only moderately favorable, particularly regarding the data-processing dimension, where the mean item score of 3.60 suggests employees are somewhat ambivalent about the accuracy, transparency, and accessibility of the compensation-processing system. This qualitative nuance is illuminated by field observation of PT JTE's payroll cycle, examined through Romney and Steinbart (2018) four-stage data processing framework. At the input stage, the HR and General Affairs Supervisor registers new employees into a fingerprint attendance system, while leave, sick-day, business-travel, and overtime requests are collected pending managerial approval. At the storage stage, attendance and overtime data are compiled by the HR and General Affairs Supervisor at each month's cut-off date (the 25th) and forwarded to the Finance Supervisor, alongside employee records and BPJS documentation, for payroll computation. At the processing stage, the Finance Supervisor calculates all salary components, including base pay, allowances, overtime, and deductions such as BPJS contributions and late-arrival penalties, with results verified by the Manager of Finance, HR, and General Affairs before being formalized into payroll vouchers and disbursed through the banking system, with any discrepancies corrected through supplementary payment. At the output stage, the cycle generates attendance and overtime records, employee data, salary computations, payroll vouchers, transfer receipts, and payroll archives, culminating in journal entries posted to the SAP system.

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This structured, four-stage payroll cycle demonstrably contributes to shaping employees' perceptions of compensation fairness and transparency, an especially salient consideration for Millennial and Generation Z employees, who, having grown up within a digital ecosystem characterized by extensive information access, hold heightened expectations of transparency. For these employees, the nominal amount of compensation alone is insufficient to establish a perception of fairness; they additionally require clarity regarding how pay is calculated, which components influence it, and what mechanisms ensure its accuracy and consistency. From an accounting information systems perspective, it is precisely this form of transparency that a reliable data processing cycle produces through accurate input, structured storage, verified processing, and accountable output, and when employees can understand and trust this process in its entirety, the resulting perception of fairness becomes substantive rather than merely procedural, thereby reinforcing the commitment and performance predicted by Social Exchange Theory. This integration of the accounting data processing cycle into the measurement of compensation constitutes the principal novelty of this study, positioning human resource management within the analytical lens of accounting information systems and demonstrating that payroll-system quality is itself a determinant of the fairness perceptions that ultimately shape employee performance.

The Effect of Work Motivation on Employee Performance

Contrary to H2, work motivation was found to exert no significant effect on the performance of Millennial and Generation Z employees at PT Jasa Tirta Energi. Viewed through Social Exchange Theory, this non-significant result can be explained by an imbalance between perceived costs and rewards, the reciprocity mechanism activates only when employees perceive a meaningful and valuable exchange, and if the psychological costs they bear, work pressure, limited autonomy, and monotony within a relatively bureaucratic environment, are perceived to outweigh the motivational benefits received, the anticipated reciprocal increase in performance fails to materialize. This condition is particularly plausible given that PT JTE, as a state-owned enterprise subsidiary, operates within a more standardized and hierarchical structure than typical private-sector firms, constraining the space within which employees can experience personally meaningful social exchange.

This interpretation is reinforced by Maslow's hierarchy of needs (as cited in Robbins & Judge, 2023), according to which individuals become motivated to pursue higher-order needs only once lower-order needs are adequately satisfied. Although the descriptive mean

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for work motivation was relatively high, disaggregation by indicator reveals that the physiological-needs item, adequacy of salary to meet basic needs, recorded the lowest mean (3.88), suggesting employees feel neither deprived nor fully satisfied, whereas social-needs and self-actualization items recorded the highest means (4.20), reflecting strong perceived collegiality and developmental opportunity. This pattern suggests that while higher-order needs are being met, satisfaction at the most basic level remains moderate, a condition consistent with the broader financial pressures facing Millennial and Generation Z employees nationally, whose attention may be disproportionately consumed by basic financial adequacy, causing work motivation to function as a baseline expectation rather than a genuine performance driver. Demographic characteristics offer a complementary explanation, with 85.7% of respondents having accumulated 1–10 years of tenure, work motivation may have become normalized into routine engagement with the organization rather than a differentiating factor in individual performance, with employee competence and compensation instead exerting more direct influence.

This finding aligns with Pudjowati et al. (2022) and Hidayat (2021), both of whom found no significant effect between work motivation and employee performance, though it diverges from Puji Salvano et al. (2023), underscoring that the effect of work motivation on employee performance is highly contextual and contingent on population characteristics, work environment, and measurement instrumentation. The result is consistent with Herzberg's Two-Factor Theory (as cited in Tarumingkeng, 2025), within PT Jasa Tirta Energi, work motivation appears to function not as a motivator but as a hygiene factor, its presence does not actively elevate performance, though its absence could plausibly diminish it. Accordingly, this non-significant finding does not constitute a refutation of Social Exchange Theory but rather reflects a contextual condition in which the prevailing social exchange has not yet reached a threshold sufficient to translate directly into elevated performance among Millennial and Generation Z employees at PT JTE.

The Effect of Employee Competence on Employee Performance

Consistent with H3, employee competence was found to exert a positive and significant effect on employee performance, emerging as the most dominant predictor in the model (standardized Beta = 0.459). This finding resonates with the structural competency gap facing Indonesia's younger workforce, wherein a substantial proportion of young jobseekers remain inadequately prepared for productive labor market participation, exacerbated by a

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persistent mismatch between the skills possessed by the workforce and market demand. Within this context, the finding that competent Millennial and Generation Z employees at PT JTE achieve superior performance affirms that competency functions not merely as an administrative prerequisite but as a fundamental determinant of work behavior and outcomes.

From a Social Exchange Theory perspective, employees with high competency are perceived as delivering high-value contributions, prompting organizations to extend greater recognition, trust, and responsibility in return, a dynamic that further reinforces competent employees' motivation to sustain superior performance as an act of reciprocity. This is consistent with Spencer and Spencer (as cited in Tsauri, 2013) contention that competency reflects not only visible technical skill but also deeper characteristics that consistently drive effective work behavior. The result is corroborated by Astarina et al. (2022), who found that the effect of competency on employee performance is amplified by supportive training. This finding is further supported by Pudjowati et al. (2022), who also found that competency has a significant effect on employee performance.

Disaggregated by Spencer and Spencer's five dimensions, PT JTE employees recorded a relatively favorable mean (20.37), suggesting balanced strength across both the more readily trainable dimensions (knowledge and skills) and the deeper, non-observable dimensions (motives, traits, and self-concept) that require more sustained developmental investment. This balance across visible and latent competency dimensions appears central to the strong, the dominant effect of employee competence on employee performance in this study, reinforcing the broader policy imperative, both for PT JTE specifically and Indonesia's workforce-development agenda more broadly, of treating competency investment as a strategic rather than merely operational priority.

CONCLUSION

This study examined the effects of compensation, work motivation, and employee competence on the performance of Millennial and Generation Z employees at PT Jasa Tirta Energi, drawing on survey data from 35 employees analyzed through multiple linear regression. The findings demonstrate that compensation and employee competence each exert a positive and significant effect on employee performance, with employee competence identified as the most dominant predictor in the model, whereas work motivation exerts no statistically significant effect. These results indicate that the reciprocal mechanism posited by Social Exchange Theory operates unevenly across the three variables examined,

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compensation and employee competence represent forms of exchange that employees perceive as sufficiently tangible and valuable to elicit reciprocal performance gains, whereas motivation, shaped substantially by work-life balance and developmental opportunity in this organizational context, appears to have been absorbed as a baseline expectation rather than a differentiating driver of performance, consistent with its functioning as a hygiene factor in Herzberg's terms rather than as an active motivator.

Theoretically, this study extends Social Exchange Theory by demonstrating that the strength of reciprocal exchange is not uniform across HRM constructs but instead depends on how tangibly and transparently an organizational reward is perceived. Its principal theoretical contribution lies in integrating Romney and Steinbart (2018) accounting data processing cycle into the operationalization of compensation, thereby demonstrating that the reliability and transparency of a payroll information system constitute a meaningful, previously underexamined dimension of employees' compensation-fairness perceptions, one with particular salience for digitally native Millennial and Generation Z employees. This cross-disciplinary integration of accounting information systems theory into human resource management research offers a novel analytical pathway for future studies seeking to examine compensation not merely as a monetary outcome but as a system-mediated experience.

Practically, the findings suggest that PT Jasa Tirta Energi and comparable state-owned enterprises should treat compensation-policy evaluation as a recurring managerial agenda, ensuring internal and external equity, sustained transparency in compensation determination and disbursement, and broad-based employee understanding of compensation policy through regular communication and accessible information channels. Given the demonstrated relevance of payroll-system reliability, the company is further encouraged to strengthen internal controls through tiered authorization at each material stage of the compensation cycle and to invest in integrated payroll software linking attendance, personnel, banking, and accounting (SAP) systems, thereby enhancing both procedural accuracy and employees' technological competency. As employee competence constitutes the most dominant performance determinant identified in this study, the company should prioritize structured training and outcome-based competency assessment as strategic investments. Regarding work motivation, although no significant effect was detected, management is advised to sustain the currently favorable motivational climate while redesigning motivational programs toward greater intrinsic orientation, structured learning and development opportunities, greater work autonomy, and recognition grounded in demonstrable contribution, so that existing

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motivational capital can be more effectively channeled into measurable performance gains among Millennial and Generation Z employees.

This study is subject to several limitations that suggest directions for future research. First, the measurement of employee performance relied entirely on employees' self-reported perceptions rather than objective company performance data, a limitation made salient by the disparity between the relatively high perceived-performance scores obtained and the company's own recorded revenue shortfall in 2025 (71.9% of its targeted budget), raising the possibility of perceptual overestimation; therefore future studies are encouraged to incorporate objective performance indicators, such as individual key performance indicator (KPI) achievement, to strengthen measurement validity. Second, sole reliance on a questionnaire instrument introduces the risk of social desirability bias, whereby respondents may provide socially acceptable rather than fully accurate responses; future research would benefit from a mixed-methods design incorporating in-depth interviews to enrich and validate quantitative findings. Third, the study's scope was confined to a single organization, limiting the generalizability of its findings to other organizational contexts that differ in culture, structure, and workforce composition; future research is therefore encouraged to extend this investigation across multiple organizations to enhance the generalizability and robustness of the findings.

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