

Compensation, Benefits, and Work Motivation Effects on Hotel Employee Performance: The Mediating Role of Job Satisfaction

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Abstract

This study aims to examine the effect of compensation, benefits, and work motivation on employee performance with job satisfaction as a mediating variable among hotel employees in Batu City, East Java. The research employed a quantitative approach with a survey method. The population consisted of 450 employees from 15 four-star and five-star hotels in Batu City. Using purposive sampling technique, 210 respondents were selected based on minimum one-year tenure criteria. Data were collected through structured questionnaires and analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS) with SmartPLS 3.0 software. The results indicated that compensation, benefits, and work motivation significantly influence employee performance both directly and indirectly through job satisfaction as a mediating variable. This study contributes to human resource management literature by providing empirical evidence on the importance of integrated compensation and benefit strategies in the hospitality industry, particularly in tourism cities.

Keywords: Benefits; Compensation; Employee Performance; Hospitality; Work Motivation;

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INTRODUCTION

Human resource management has become increasingly critical in today's competitive business environment, particularly in the hospitality industry where employee performance directly impacts service quality and organizational success (Aguenza & Som, 2018). Organizations worldwide recognize that employees are valuable assets whose performance determines organizational competitiveness and sustainability. In this context, effective compensation and benefit management serves as a strategic tool to attract, retain, and motivate talented employees to achieve optimal performance levels (Hameed et al., 2014).

The hospitality industry, characterized by high employee turnover rates and intensive customer interaction, faces unique challenges in managing human resources effectively (Karatepe & Vatankhah, 2014). Hotels must maintain service excellence while managing operational costs, making compensation and benefit strategies crucial for organizational success. Research indicates that appropriate compensation systems and comprehensive benefit packages significantly influence employee attitudes, behaviors, and performance outcomes (Bustamam et al., 2014). However, the relationship between these variables is complex and may be influenced by contextual factors such as organizational culture, industry characteristics, and geographical location.

Indonesia's tourism sector has experienced substantial growth, with tourism cities like Batu City in East Java emerging as prominent destinations. Batu City has transformed from a small mountain resort town into a major tourist destination, hosting numerous hotels ranging from budget accommodations to luxury establishments (Widayanti & Hakim, 2019). This rapid development has created intense competition among hotels, making employee performance a critical differentiator. Hotels in Batu City employ hundreds of workers in various departments, including front office, housekeeping, food

and beverage, and back office operations. The diversity of job roles and the seasonal nature of tourism create unique challenges for compensation and benefit management in this context.

Despite the growing importance of compensation and benefit management in the hospitality industry, several research gaps remain. First, while numerous studies have examined compensation and employee performance relationships in manufacturing and service sectors (Osibanjo et al., 2014; Darma & Supriyanto, 2017), limited research has focused specifically on the hospitality industry in Indonesian tourism cities. Second, most existing studies examine compensation and benefits as separate constructs, overlooking their interactive effects on employee outcomes (Terera & Ngirande, 2014). Third, the mediating role of job satisfaction in the relationship between compensation, benefits, and performance requires further empirical validation, particularly in the Indonesian hospitality context (Inuwa, 2016).

Furthermore, previous research has yielded inconsistent findings regarding the relationship between compensation and employee performance. Some studies report strong positive relationships (Salisu et al., 2015), while others find weak or insignificant effects (Akintoye & Atarere, 2016), suggesting potential mediating or moderating mechanisms. The role of work motivation as a predictor of performance alongside compensation and benefits also remains underexplored in hospitality settings (Dobre, 2013). Additionally, the specific characteristics of hotel employees in tourism cities including seasonal employment patterns, diverse cultural backgrounds, and varying educational levels may influence how compensation and benefits affect performance outcomes.

Based on comprehensive review of empirical literature, several critical gaps have been identified. Hameed et al. (2014) examined compensation effects on employee performance in the banking sector but did not include benefits as a separate construct or consider job satisfaction as a mediator. Bustamam et al. (2014) investigated compensation and benefits in the Malaysian hospitality industry but focused primarily on turnover intention rather than performance outcomes. Aguenza and Som (2018) studied motivational factors including compensation in the hotel industry but did not employ a comprehensive mediation model or utilize advanced statistical techniques like SEM-PLS.

Recent studies by Salisu et al. (2015) and Darma and Supriyanto (2017) examined compensation-performance relationships but were conducted in different industrial contexts and geographical settings, limiting generalizability to the Indonesian hospitality sector. Terera and Ngirande (2014) investigated employee benefits and performance but did not consider the interactive effects with compensation or the potential mediating role of job satisfaction. Furthermore, Inuwa (2016) explored compensation, benefits, and performance relationships but utilized linear regression rather than structural equation modeling, which cannot adequately capture complex mediating relationships.

Novelty of this research lies in several aspects. First, this study integrates compensation, benefits, and work motivation as independent predictors of employee performance, examining their simultaneous effects in a comprehensive model. Second, it introduces job satisfaction as a mediating variable, providing insights into the psychological mechanisms through which compensation and benefits influence performance. Third, it employs SEM-PLS methodology, which allows for examination of complex relationships and measurement model validation simultaneously. Fourth, this research focuses specifically on hotel employees in Batu City, a prominent Indonesian tourism destination, filling a geographical and contextual gap in the literature. Finally, this

study provides practical implications for hotel management in designing integrated compensation and benefit strategies that enhance both employee satisfaction and performance in competitive tourism markets.

Based on the background and identified gaps, this research aims to:

1. Analyze the effect of compensation on employee performance among hotel employees in Batu City
2. Examine the effect of benefits on employee performance among hotel employees in Batu City
3. Investigate the effect of work motivation on employee performance among hotel employees in Batu City
4. Assess the effect of compensation on job satisfaction among hotel employees in Batu City
5. Evaluate the effect of benefits on job satisfaction among hotel employees in Batu City
6. Determine the effect of work motivation on job satisfaction among hotel employees in Batu City
7. Analyze the effect of job satisfaction on employee performance among hotel employees in Batu City
8. Examine the mediating role of job satisfaction in the relationship between compensation and employee performance
9. Investigate the mediating role of job satisfaction in the relationship between benefits and employee performance

LITERATURE REVIEW

This research is primarily grounded in Vroom's (1964) Expectancy Theory, which posits that individuals are motivated to behave in certain ways based on their expectations that specific actions will lead to desired outcomes. The theory comprises three key components: expectancy (effort-performance relationship), instrumentality (performance-outcome relationship), and valence (outcome attractiveness). In the context of this study, compensation and benefits represent valued outcomes that employees expect to receive in exchange for their effort and performance. When employees perceive that higher performance leads to better compensation and benefits (instrumentality), and they value these rewards (valence), they are motivated to exert greater effort (expectancy), ultimately enhancing their performance (Vroom, 1964; Parijat & Bagga, 2014).

Expectancy Theory provides a comprehensive framework for understanding how compensation and benefit systems influence employee motivation and performance. The theory suggests that employees make rational calculations about the relationship between their efforts, performance levels, and expected rewards. When organizations design compensation systems that clearly link pay to performance and offer attractive benefits packages, they strengthen the instrumentality and valence components, thereby enhancing employee motivation and subsequent performance (Lunenburg, 2011). This theoretical perspective explains why compensation and benefits alone may not guarantee high performance unless employees perceive clear connections between their efforts, performance, and rewards.

Equity Theory

Adams' (1965) Equity Theory serves as a middle-range theoretical framework, explaining how perceptions of fairness in compensation and benefits influence employee attitudes and behaviors. The theory proposes that employees compare their input-outcome

ratios with those of relevant others, and perceived inequity creates psychological tension that motivates corrective action (Adams, 1965). In organizational contexts, employees assess whether their compensation and benefits are equitable relative to their contributions and compared to colleagues performing similar work. Perceived inequity can lead to reduced job satisfaction, decreased motivation, and lower performance (Huseman et al., 1987).

Equity Theory is particularly relevant in the hospitality industry, where employees frequently interact and compare their compensation and benefits with colleagues across different departments and organizations (Karatepe & Vatankhah, 2014). When employees perceive that they are fairly compensated relative to their efforts and compared to others, they experience greater job satisfaction and are motivated to maintain or improve their performance levels. Conversely, perceived inequity can trigger various responses, including reduced effort, absenteeism, or turnover intentions (Terera & Ngirande, 2014). This theory thus explains the mechanism through which compensation and benefits influence job satisfaction, which subsequently affects employee performance.

Two-Factor Theory

Herzberg's (1959) Two-Factor Theory provides an applied theoretical lens for understanding the differential effects of compensation and benefits on employee satisfaction and motivation. The theory distinguishes between hygiene factors (such as salary and working conditions) that prevent dissatisfaction and motivators (such as achievement and recognition) that promote satisfaction and motivation (Herzberg et al., 1959). According to this framework, compensation and benefits primarily function as hygiene factors—their absence or inadequacy causes dissatisfaction, but their presence does not necessarily lead to high motivation or performance (Alshmemri et al., 2017).

However, contemporary applications of Two-Factor Theory recognize that compensation can serve both hygiene and motivational functions depending on how it is structured and administered (Sachau, 2007). Performance-based compensation systems, for example, may act as motivators by providing recognition and achievement opportunities, while base salaries and standard benefits function as hygiene factors. This dual nature of compensation and benefits systems explains why they must be strategically designed to both prevent dissatisfaction and actively promote motivation and performance. In the hospitality industry, where job characteristics vary significantly across positions, understanding the hygiene-motivator distinction helps managers design appropriate compensation and benefit packages that address different employee needs (Dobre, 2013).

Compensation

Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship (Milkovich et al., 2013). It encompasses both direct financial payments such as wages, salaries, bonuses, and commissions, and indirect payments in the form of benefits and services (Hameed et al., 2014). In the hospitality industry, compensation structures typically include base salary, service charges, tips, performance bonuses, and overtime payments. Effective compensation systems must be internally equitable, externally competitive, individually fair, and transparent to maximize their impact on employee outcomes (Bustamam et al., 2014).

Research demonstrates that compensation significantly influences employee performance through multiple mechanisms. First, adequate compensation satisfies basic

needs, reducing financial stress that might otherwise impair job focus and productivity (Salisu et al., 2015). Second, competitive compensation attracts and retains talented employees who possess the skills and competencies necessary for high performance (Osibanjo et al., 2014). Third, performance-based compensation creates direct incentives for employees to exert greater effort and achieve higher performance levels (Darma & Supriyanto, 2017). Finally, fair compensation enhances organizational commitment and employee engagement, which positively impact performance (Aguenza & Som, 2018).

Benefits

Benefits refer to indirect forms of compensation provided to employees, including health insurance, retirement plans, paid leave, employee assistance programs, and various other services and perquisites (Martocchio, 2017). In the hospitality industry, common benefits include meals during shifts, accommodation for certain positions, transportation allowances, uniform provision, training opportunities, and career development programs (Karatepe & Vatankhah, 2014). Unlike direct compensation, benefits often provide long-term security and work-life balance support, addressing employees' broader needs beyond immediate financial concerns (Terera & Ngirande, 2014).

The impact of benefits on employee performance operates through several pathways. Comprehensive benefit packages demonstrate organizational care for employee welfare, fostering reciprocal commitment and effort (Inuwa, 2016). Health and wellness benefits reduce absenteeism and presenteeism, ensuring employees can perform optimally (Bustamam et al., 2014). Professional development benefits enhance employee capabilities and skills, directly improving performance capacity (Aguenza & Som, 2018). Furthermore, attractive benefit packages improve employee morale and job satisfaction, which indirectly enhance performance through increased engagement and organizational citizenship behaviors (Salisu et al., 2015).

Work Motivation

Work motivation represents the psychological forces that determine the direction of a person's behavior in an organization, effort level, and persistence in the face of obstacles (Pinder, 2014). It encompasses both intrinsic motivation (derived from inherent interest in the work itself) and extrinsic motivation (driven by external rewards and recognition) (Deci & Ryan, 2000). In the hospitality context, work motivation is particularly crucial given the challenging nature of service work, irregular hours, and high customer interaction demands (Karatepe & Vatankhah, 2014).

Motivated employees demonstrate higher performance levels through increased effort, persistence, and task engagement (Dobre, 2013). Research indicates that work motivation mediates the relationship between organizational factors (including compensation and benefits) and performance outcomes (Parijat & Bagga, 2014). While compensation and benefits serve as extrinsic motivators, they can also enhance intrinsic motivation when employees perceive them as recognition of their competence and contribution (Aguenza & Som, 2018). In the hotel industry, where emotional labor and service quality are paramount, maintaining high employee motivation is essential for sustaining performance excellence (Inuwa, 2016).

Job Satisfaction

Job satisfaction is defined as a pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences (Locke, 1976). It reflects employees' cognitive and affective evaluations of various job facets, including compensation, benefits, working conditions, relationships with colleagues and supervisors, and opportunities for growth (Spector, 1997). In the hospitality industry, job satisfaction is particularly important given its impact on service quality, customer satisfaction, and ultimately organizational performance (Karatepe & Vatankhah, 2014).

Numerous studies establish job satisfaction as a critical mediator between organizational practices and employee performance (Inuwa, 2016; Salisu et al., 2015). Satisfied employees are more engaged, committed, and willing to exert discretionary effort, leading to superior performance (Bustamam et al., 2014). Compensation and benefits significantly influence job satisfaction by addressing employees' financial security needs and demonstrating organizational valuation (Hameed et al., 2014). Work motivation also enhances job satisfaction as motivated employees find greater meaning and fulfillment in their work (Dobre, 2013). The satisfaction-performance relationship is particularly salient in service industries where employee attitudes directly affect customer experiences and outcomes (Aguenza & Som, 2018).

Employee Performance

Employee performance refers to the degree to which employees successfully complete their assigned duties and responsibilities, contributing to organizational goal achievement (Campbell et al., 1993). It encompasses both task performance (proficiency in performing prescribed job duties) and contextual performance (discretionary behaviors that support organizational functioning) (Borman & Motowidlo, 1997). In the hospitality industry, employee performance is multidimensional, including technical skills, service quality, customer satisfaction outcomes, and teamwork effectiveness (Karatepe & Vatankhah, 2014).

Research consistently demonstrates that employee performance is influenced by multiple factors, including individual characteristics, organizational systems, and work environment features (Aguenza & Som, 2018). Compensation and benefits impact performance both directly through incentive mechanisms and indirectly through their effects on motivation and satisfaction (Salisu et al., 2015; Hameed et al., 2014). Work motivation serves as a proximal determinant of performance by influencing effort direction, intensity, and persistence (Dobre, 2013). Job satisfaction contributes to performance by enhancing employee engagement, reducing counterproductive behaviors, and fostering organizational citizenship (Inuwa, 2016). Understanding these complex relationships is essential for developing effective human resource management strategies in the hospitality sector.

METHODS

This study employs a quantitative research approach with an explanatory research design to examine causal relationships among variables. The research utilizes a cross-sectional survey design, collecting data at a single point in time from hotel employees in Batu City, East Java. This design is appropriate for testing hypothesized relationships in the proposed structural model and allows for generalization to the broader population of hotel employees in tourism cities (Creswell & Creswell, 2017).

Population and Sample

The research population consists of all employees working in four-star and five-star hotels in Batu City, East Java. Based on preliminary data from the Batu City Tourism Office and direct hotel surveys, the total population is approximately 450 employees across 15 hotels meeting the classification criteria. These hotels represent diverse organizational sizes and management structures, providing appropriate variance for examining the research variables.

Additionally, Hair et al. (2017) recommend a minimum sample size of 10 times the largest number of structural paths directed at a particular construct in the structural model for PLS-SEM analysis. Given that the employee performance construct has four paths directed toward it, a minimum sample of 40 would be required. However, the calculated sample of 210 respondents exceeds all minimum requirements and provides adequate statistical power for detecting medium effect sizes.

Sampling Technique

The study employs purposive sampling technique, selecting respondents based on specific predetermined criteria to ensure they possess relevant knowledge and experience regarding the research variables (Sekaran & Bougie, 2016). The inclusion criteria are:

1. Permanent employees (not temporary or seasonal workers)
2. Minimum tenure of one year at the current hotel
3. Working in various departments (front office, housekeeping, food and beverage, back office)
4. Willing to participate voluntarily in the research

These criteria ensure that respondents have sufficient organizational experience to evaluate compensation, benefits, and other workplace factors accurately. The distribution of respondents across hotels is proportional to the employee population in each establishment to maintain representativeness.

RESULT AND DISCUSSION

Respondent Characteristics

Data were collected from 210 employees across 15 four-star and five-star hotels in Batu City, East Java. The demographic profile reveals that 58.1% of respondents are male and 41.9% are female, indicating a relatively balanced gender distribution in the hospitality workforce. Age distribution shows that 42.4% of respondents are between 26-35 years old, 31.4% are between 36-45 years old, 18.6% are 25 years or younger, and 7.6% are above 45 years old, demonstrating a predominantly young to middle-aged workforce.

Educational background analysis indicates that 47.6% of respondents hold senior high school diplomas, 35.2% have diploma degrees, 15.7% possess bachelor's degrees, and 1.5% have postgraduate qualifications. This distribution reflects the diverse educational requirements across different hotel departments. Regarding tenure, 38.1% of respondents have worked for 1-3 years, 33.3% for 4-6 years, 19.0% for 7-10 years, and 9.6% for more than 10 years. Department distribution shows that 28.6% work in Food and Beverage, 24.8% in Housekeeping, 23.8% in Front Office, 12.9% in Kitchen, and 9.9% in other departments including engineering, finance, and human resources.

Coefficient of Determination (R^2)

The coefficient of determination (R^2) indicates the variance in endogenous constructs explained by their predictor variables. Results show that compensation, benefits, and work

motivation collectively explain 62.4% of the variance in job satisfaction ($R^2 = 0.624$), indicating substantial explanatory power. This suggests that these three factors are important determinants of employee satisfaction in the hospitality industry. Furthermore, compensation, benefits, work motivation, and job satisfaction together explain 71.8% of the variance in employee performance ($R^2 = 0.718$), demonstrating strong predictive capability. According to Hair et al. (2017), R^2 values of 0.75, 0.50, and 0.25 can be described as substantial, moderate, and weak, respectively. Thus, the model exhibits substantial to moderate explanatory power for the endogenous constructs.

The adjusted R^2 values, which account for model complexity, are 0.618 for job satisfaction and 0.713 for employee performance, confirming the robustness of the findings. Stone-Geisser's Q^2 values, calculated through blindfolding procedures, are 0.411 for job satisfaction and 0.487 for employee performance, both substantially above zero, confirming the model's predictive relevance (Hair et al., 2017).

Path Coefficient Analysis and Hypothesis Testing

Path coefficients were estimated using PLS-SEM bootstrapping procedure with 5,000 resamples. Table 1 presents the results of hypothesis testing for direct and Indirect effects.

Tabel 1 Direct and Indirect Effects Result.

Hypothesis	Path Coefficient	T-Statistics	P-Value	Decision
H1	0.214	3.847	0.000	Supported
H2	0.189	3.326	0.001	Supported
H3	0.276	5.142	0.000	Supported
H4	0.298	5.621	0.000	Supported
H5	0.267	4.893	0.000	Supported
H6	0.314	6.105	0.000	Supported
H7	0.283	5.427	0.000	Supported
H8	0.084	3.729	0.000	Supported
H9	0.076	3.412	0.001	Supported
H10	0.089	4.158	0.000	Supported

Resource : SEM PLS 2025

Results indicate that all seven direct effect hypotheses are supported at the 0.05 significance level. Work motivation demonstrates the strongest direct effect on job satisfaction ($\beta = 0.314$, $t = 6.105$, $p < 0.000$), followed by compensation ($\beta = 0.298$, $t = 5.621$, $p < 0.000$) and benefits ($\beta = 0.267$, $t = 4.893$, $p < 0.000$). This finding suggests that intrinsic and extrinsic motivational factors are crucial determinants of employee satisfaction in the hospitality industry, consistent with Dobre (2013) and Aguenza and Som (2018).

Regarding performance outcomes, work motivation exhibits the strongest direct effect ($\beta = 0.276$, $t = 5.142$, $p < 0.000$), followed by job satisfaction ($\beta = 0.283$, $t = 5.427$, $p < 0.000$), compensation ($\beta = 0.214$, $t = 3.847$, $p < 0.000$), and benefits ($\beta = 0.189$, $t = 3.326$, $p = 0.001$). These findings align with Expectancy Theory, suggesting that employees who are adequately compensated, receive attractive benefits, and maintain high motivation levels demonstrate superior performance (Vroom, 1964; Parijat & Bagga, 2014).

Effect Size (f^2)

Effect size (f^2) values were calculated to assess the substantive impact of predictor variables on endogenous constructs. According to Hair et al. (2017), f^2 values of 0.02, 0.15, and 0.35 represent small, medium, and large effects, respectively. Results reveal that work motivation has a medium effect on job satisfaction ($f^2 = 0.157$) and employee performance ($f^2 = 0.142$). Compensation demonstrates a medium effect on job satisfaction ($f^2 = 0.134$) and a small to medium effect on performance ($f^2 = 0.083$). Benefits show a medium effect on job satisfaction ($f^2 = 0.115$) and a small effect on performance ($f^2 = 0.064$). Job satisfaction exhibits a medium effect on employee performance ($f^2 = 0.148$). These findings confirm that all predictor variables contribute meaningfully to explaining variance in the endogenous constructs. All three mediation hypotheses are supported, confirming that job satisfaction partially mediates the relationships between compensation, benefits, work motivation, and employee performance. The Variance Accounted For (VAF) values range from 24.4% to 28.7%, indicating that approximately one-quarter of the total effect of these predictors on performance operates through job satisfaction. According to Hair et al. (2017), VAF values between 20% and 80% indicate partial mediation, while values above 80% suggest full mediation.

The indirect effect of compensation on performance through job satisfaction is significant ($\beta = 0.084$, $t = 3.729$, $p < 0.000$), with job satisfaction mediating 28.2% of the total effect. Similarly, the indirect effect of benefits on performance through job satisfaction is significant ($\beta = 0.076$, $t = 3.412$, $p = 0.001$), with 28.7% mediation. Work motivation's indirect effect on performance through job satisfaction is also significant ($\beta = 0.089$, $t = 4.158$, $p < 0.000$), with 24.4% of the total effect mediated by satisfaction. These findings support Equity Theory's proposition that fair compensation and benefits enhance satisfaction, which subsequently improves performance (Adams, 1965; Inuwa, 2016).

The Effect of Compensation on Employee Performance

The finding that compensation significantly and positively affects employee performance ($\beta = 0.214$, $p < 0.000$) confirms H1 and supports previous research by Hameed et al. (2014) and Salisu et al. (2015). This result demonstrates that when hotel employees perceive their compensation as adequate, competitive, and equitable, they are motivated to exert greater effort and achieve higher performance levels. In the context of Batu City's hospitality industry, where competition for skilled workers is intense, competitive compensation serves as both a hygiene factor preventing dissatisfaction and a motivator encouraging performance excellence (Herzberg et al., 1959; Sachau, 2007).

The relatively moderate effect size ($f^2 = 0.083$) suggests that while compensation is important, it is not the sole determinant of performance. This finding aligns with contemporary human resource management perspectives recognizing that performance is influenced by multiple factors including individual capabilities, motivation, and organizational support (Aguenza & Som, 2018). In practical terms, hotel management in Batu City should ensure that compensation packages are not only competitive with local market rates but also perceived as fair and equitable by employees to maximize performance benefits.

The significant relationship between compensation and performance can be interpreted through Expectancy Theory (Vroom, 1964), which posits that employees perform better when they perceive strong instrumentality between their performance and valued outcomes such as compensation. When hotel employees believe that high performance will result in better pay, bonuses, or salary increases, they are motivated to maintain or improve their performance levels. This finding emphasizes the importance of transparent performance-based compensation systems in the hospitality industry.

The Effect of Benefits on Employee Performance

Results confirm that benefits significantly and positively influence employee performance ($\beta = 0.189$, $p = 0.001$), supporting H2 and corroborating findings by Bustamam et al. (2014) and Terera and Ngirande (2014). This indicates that comprehensive benefit packages including health insurance, meal allowances, paid leave, training opportunities, and career development programs contribute to enhanced employee performance in Batu City hotels. Benefits address employees' broader welfare needs beyond immediate financial compensation, demonstrating organizational commitment to employee well-being (Martocchio, 2017).

The small to moderate effect size ($f^2 = 0.064$) suggests that benefits influence performance through mechanisms such as reduced absenteeism, enhanced loyalty, and improved employee morale rather than direct performance incentives. In the hospitality context, where work demands are often physically and emotionally taxing, benefits that support work-life balance and health maintenance enable employees to perform optimally (Karatepe & Vatankhah, 2014). Hotels in Batu City should consider expanding benefit packages beyond statutory requirements to include wellness programs, flexible scheduling options, and professional development opportunities.

This finding also supports Two-Factor Theory's distinction between hygiene factors and motivators (Herzberg et al., 1959). While benefits primarily function as hygiene factors preventing dissatisfaction, certain benefits such as training and career development programs can serve as motivators by facilitating personal growth and advancement. Hotel management should therefore design benefit packages that address both categories to maximize employee satisfaction and performance.

The Effect of Work Motivation on Employee Performance

The strongest direct effect on employee performance is exerted by work motivation ($\beta = 0.276$, $p < 0.000$), confirming H3 and supporting research by Dobre (2013) and Aguenza and Som (2018). This finding underscores that motivated employees—those with high intrinsic interest in their work, strong achievement orientation, and desire for personal growth—demonstrate superior performance in the hospitality industry. The medium effect size ($f^2 = 0.142$) indicates that work motivation is a substantial driver of performance outcomes.

In the context of hotel operations in Batu City, where service quality depends heavily on employee enthusiasm and initiative, maintaining high motivation levels is critical. Motivated employees are more likely to go beyond prescribed job duties, provide exceptional customer service, solve problems proactively, and contribute to positive team dynamics (Inuwa, 2016). This finding suggests that hotel management should implement practices that enhance both intrinsic motivation (through meaningful work design, autonomy, and skill development) and extrinsic motivation (through recognition, rewards, and advancement opportunities).

The significant relationship between work motivation and performance aligns with Expectancy Theory's core proposition that motivation influences the direction, intensity, and persistence of effort toward performance goals (Vroom, 1964; Lunenburg, 2011). Hotels should create work environments that foster motivation by providing clear performance expectations, sufficient resources and support, regular feedback, and opportunities for achievement and recognition.

The Effect of Compensation on Job Satisfaction

Compensation demonstrates a significant positive effect on job satisfaction ($\beta = 0.298$, $p < 0.000$), supporting H4 and confirming findings by Darma and Supriyanto (2017) and Inuwa (2016). This result indicates that employees who perceive their compensation as adequate, fair, and competitive experience higher satisfaction with their jobs. The medium effect size ($f^2 = 0.134$) suggests that compensation is an important determinant of satisfaction in the hospitality industry.

This finding is consistent with Equity Theory (Adams, 1965), which posits that employees evaluate their compensation relative to their inputs (effort, skills, experience) and compare their input-output ratios with those of relevant others. When employees perceive equity in compensation, they experience satisfaction; perceived inequity leads to dissatisfaction and corrective actions such as reduced effort or turnover (Huseman et al., 1987). For hotels in Batu City, ensuring internal equity (fair pay across positions) and external competitiveness (market-rate compensation) is essential for maintaining employee satisfaction.

The relationship between compensation and satisfaction also reflects the fulfillment of basic psychological needs for security and recognition. When employees receive adequate compensation, they experience reduced financial stress and increased perception of being valued by the organization, both contributing to job satisfaction (Hameed et al., 2014). Hotel management should regularly benchmark compensation against competitors and conduct internal equity analyses to ensure fairness.

The Effect of Benefits on Job Satisfaction

Benefits significantly and positively affect job satisfaction ($\beta = 0.267$, $p < 0.000$), confirming H5 and supporting research by Bustamam et al. (2014) and Terera and Ngirande (2014). This finding demonstrates that comprehensive benefit packages contribute to employee satisfaction by addressing welfare needs, providing security, and demonstrating organizational care. The medium effect size ($f^2 = 0.115$) indicates that benefits are meaningful contributors to satisfaction.

In the hospitality industry, where work schedules can be irregular and physically demanding, benefits such as health insurance, meal provisions, and paid leave directly enhance quality of life and work-life balance, leading to increased satisfaction (Karatepe & Vatankhah, 2014). Additionally, development-oriented benefits such as training opportunities and career advancement programs satisfy higher-order needs for growth and self-actualization, further enhancing satisfaction (Martocchio, 2017).

This finding aligns with Two-Factor Theory's classification of benefits as hygiene factors that, when adequate, contribute to satisfaction and prevent dissatisfaction (Herzberg et al., 1959; Alshmemri et al., 2017). For hotels in Batu City, particularly those competing for skilled workers in a tight labor market, offering attractive benefit packages beyond statutory minimums can serve as a competitive advantage in attracting and retaining satisfied employees.

The Effect of Work Motivation on Job Satisfaction

Work motivation exhibits the strongest effect on job satisfaction ($\beta = 0.314$, $p < 0.000$), supporting H6 and confirming findings by Parijat and Bagga (2014) and Dobre (2013). This result indicates that employees with high intrinsic motivation, strong achievement orientation, and desire for personal growth experience greater job satisfaction. The medium effect size ($f^2 = 0.157$) underscores motivation's substantial contribution to satisfaction.

This finding suggests that when employees find their work intrinsically interesting, challenging, and meaningful, they derive greater fulfillment and satisfaction from their jobs. In the hospitality context, where work involves significant interpersonal interaction and opportunities for helping others, fostering intrinsic motivation through job design, autonomy, and skill variety can significantly enhance satisfaction (Aguenza & Som, 2018). Additionally, recognizing employee achievements and providing advancement opportunities satisfies extrinsic motivational needs, further contributing to satisfaction.

The strong relationship between motivation and satisfaction reflects the reciprocal nature of these constructs motivated employees find greater meaning in their work, leading to satisfaction, while satisfied employees maintain higher motivation levels (Dobre, 2013). Hotel management should implement motivational practices such as goal setting, performance feedback, recognition programs, and career development initiatives to enhance both motivation and satisfaction.

The Effect of Job Satisfaction on Employee Performance

Job satisfaction significantly and positively affects employee performance ($\beta = 0.283$, $p < 0.000$), confirming H7 and supporting research by Inuwa (2016) and Salisu et al. (2015). This finding demonstrates that satisfied employees are more engaged, committed, and willing to exert discretionary effort, resulting in superior performance.

The medium effect size ($f^2 = 0.148$) indicates that satisfaction is a meaningful predictor of performance. In the hospitality industry, where employee attitudes directly affect service quality and customer experiences, the satisfaction-performance relationship is particularly salient (Karatepe & Vatankhah, 2014). Satisfied employees are more likely to provide friendly service, handle customer complaints effectively, collaborate with colleagues, and demonstrate organizational citizenship behaviors that contribute to overall performance (Bustamam et al., 2014). For hotels in Batu City, maintaining high employee satisfaction levels is therefore crucial for ensuring service excellence and competitiveness.

This finding supports the "happy-productive worker" hypothesis, which posits that satisfied employees perform better because they experience positive emotions, are more engaged in their work, and are committed to organizational success (Inuwa, 2016). Hotel management should monitor employee satisfaction regularly through surveys and feedback mechanisms, and implement interventions to address sources of dissatisfaction promptly.

The Mediating Role of Job Satisfaction

Results confirm that job satisfaction partially mediates the relationships between compensation and performance (H8), benefits and performance (H9), and work motivation and performance (H10). These findings provide important insights into the mechanisms through which compensation, benefits, and motivation influence performance outcomes.

The partial mediation of job satisfaction indicates that these predictors affect performance through two pathways: directly by providing resources and incentives for performance, and indirectly by enhancing satisfaction, which subsequently improves performance (Hair et al., 2017). The VAF values ranging from 24.4% to 28.7% suggest that approximately one-quarter of the total effects operate through the satisfaction pathway. This finding supports theoretical models proposing job satisfaction as a key psychological state linking organizational practices to performance outcomes (Inuwa, 2016; Salisu et al., 2015).

The mediation findings align with Equity Theory, which suggests that compensation and benefits influence performance partly by shaping satisfaction perceptions (Adams, 1965). When employees perceive fair treatment through adequate compensation and

benefits, they experience satisfaction and reciprocate through enhanced performance. Similarly, Expectancy Theory suggests that motivation enhances performance partly by increasing satisfaction with work experiences and outcomes (Vroom, 1964).

For hotel management in Batu City, these findings emphasize the importance of integrated human resource strategies that address both direct performance drivers (compensation, benefits, motivation) and employee psychological states (satisfaction). Rather than focusing solely on monetary incentives, hotels should create work environments that foster satisfaction through fair treatment, comprehensive benefits, and motivational job design.

Theoretical Contributions

This study makes several theoretical contributions to human resource management and organizational behavior literature. First, it provides empirical support for the integration of Expectancy Theory, Equity Theory, and Two-Factor Theory in explaining compensation-performance relationships in the hospitality context. The findings demonstrate that these theories complement each other in explaining how compensation, benefits, and motivation influence employee outcomes.

Second, the study extends previous research by simultaneously examining compensation and benefits as distinct constructs, revealing their differential effects on satisfaction and performance. While previous studies often combined these variables or examined them separately (Hameed et al., 2014; Terera & Ngirande, 2014), this research demonstrates that both contribute uniquely to employee outcomes, with compensation showing slightly stronger effects.

Third, the confirmed mediation role of job satisfaction advances understanding of the mechanisms linking organizational practices to performance outcomes. The partial mediation pattern suggests that compensation, benefits, and motivation influence performance through both direct instrumental pathways and indirect affective pathways involving satisfaction (Inuwa, 2016). This finding supports contemporary models of employee performance that recognize both rational and emotional determinants.

Fourth, the study validates the use of SEM-PLS methodology for examining complex relationships in hospitality research, demonstrating its capability to assess measurement quality and structural relationships simultaneously. The strong model fit and predictive relevance ($Q^2 > 0$) confirm that the research framework effectively explains employee performance in the Indonesian hospitality context.

Practical Implications

The findings offer several practical implications for hotel management in Batu City and similar tourism destinations. First, hotels should develop competitive and equitable compensation systems that link pay to performance, ensuring employees perceive clear connections between their efforts and rewards. Transparent communication about compensation policies and regular market benchmarking can enhance perceived fairness and competitiveness.

Second, comprehensive benefit packages should extend beyond statutory requirements to include health and wellness programs, professional development opportunities, flexible scheduling options, and family-friendly policies. These benefits demonstrate organizational commitment to employee welfare and can serve as competitive advantages in attracting and retaining talent.

Third, motivational practices should address both intrinsic and extrinsic dimensions. Job design initiatives that provide autonomy, skill variety, and task significance can

enhance intrinsic motivation, while recognition programs, advancement opportunities, and performance feedback systems can strengthen extrinsic motivation. Creating a culture that celebrates achievement and provides growth opportunities is essential for maintaining high motivation levels.

Fourth, given the mediating role of job satisfaction, hotels should regularly assess employee satisfaction through surveys, focus groups, and exit interviews. Identifying and addressing sources of dissatisfaction promptly can prevent performance decline and turnover. Satisfaction enhancement initiatives should target multiple domains including work itself, supervision, compensation, benefits, and organizational climate.

Fifth, integrated human resource strategies that align compensation, benefits, and motivational practices with organizational goals are essential. Rather than implementing isolated initiatives, hotels should develop coherent systems where compensation rewards performance, benefits support employee well-being, and job design fosters motivation and satisfaction. Regular evaluation of these systems' effectiveness and adjustment based on employee feedback and performance outcomes is recommended.

CONCLUSION

This study examined the effects of compensation, benefits, and work motivation on employee performance with job satisfaction as a mediating variable among hotel employees in Batu City, East Java. Based on analysis of data from 210 respondents using SEM-PLS methodology, the following conclusions are drawn:

1. Compensation significantly and positively affects employee performance. Hotel employees who perceive their compensation as adequate, fair, and competitive demonstrate higher performance levels. This relationship operates through both direct incentive mechanisms and indirect effects on satisfaction and motivation.
2. Benefits significantly and positively affect employee performance. Comprehensive benefit packages that address employee welfare needs, provide security, and support professional development contribute to enhanced performance by reducing stress, improving health, and fostering organizational commitment.
3. Work motivation significantly and positively affects employee performance. This represents the strongest direct effect among the three predictors, indicating that motivated employees with high achievement orientation, intrinsic interest in work, and desire for growth demonstrate superior performance outcomes.
4. Compensation, benefits, and work motivation significantly and positively affect job satisfaction. All three factors contribute to employee satisfaction, with work motivation exhibiting the strongest effect, followed by compensation and benefits. These findings confirm that satisfaction stems from both material rewards and psychological fulfillment.
5. Job satisfaction significantly and positively affects employee performance. Satisfied employees are more engaged, committed, and willing to exert discretionary effort, resulting in better task performance and organizational citizenship behaviors.
6. Job satisfaction partially mediates the relationships between compensation, benefits, work motivation, and employee performance. Approximately 24-29% of the total effects of these predictors on performance operate through satisfaction, indicating that these factors influence performance through both direct and indirect pathways.
7. The comprehensive model explains 62.4% of variance in job satisfaction and 71.8% of variance in employee performance, demonstrating substantial predictive power and confirming that compensation, benefits, motivation, and satisfaction are key determinants of performance in the hospitality industry.

These findings contribute to human resource management literature by providing empirical evidence on the importance of integrated compensation, benefits, and motivational strategies in the Indonesian hospitality sector. The research validates theoretical propositions from Expectancy Theory, Equity Theory, and Two-Factor Theory in explaining employee satisfaction and performance outcomes.

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