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Compensation and Work Environment on Employee Performance with Work Motivation as a Mediating Variable at PD 17 Kaya Rasa Garut Employees

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Abstract

This study aims to analyze the effects of compensation and work environment on employee performance, with work motivation as a mediating variable among employees of PD 17 Kaya Rasa Garut. This research was motivated by problems related to the compensation system, work environment conditions, and the dynamics of employee motivation and performance, as indicated by irregular attendance, inadequate work facilities, and fluctuations in production target achievement. This study employed a quantitative explanatory approach with a saturated sampling technique (a census technique in which the entire population is used as the sample), involving all 50 employees of PD 17 Kaya Rasa Garut. Data were collected through questionnaires and analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS), a method suitable for small samples and models with a mediating variable. The main findings show that compensation ($\beta = 0.421$) and work environment ($\beta = 0.357$) have positive and significant effects on employee performance, and that work motivation has the strongest positive effect on performance ($\beta = 0.610$). Compensation ($\beta = -0.028$) and work environment ($\beta = -0.004$) have no significant effect on work motivation, so work motivation does not mediate their effects on performance. The model explains 65.6% of the variance in employee performance but only 0.1% of the variance in work motivation. These findings imply that employee performance at PD 17 Kaya Rasa is improved most directly through fair and clearly defined compensation, a comfortable and well-equipped work environment, and programs that sustain employee motivation, while other factors need to be examined to explain employee motivation.

Keywords:
Compensation; Work Environment; Work Motivation; Employee Performance; Mediation.

1. INTRODUCTION

Human resources are one of the key elements in supporting the sustainability and achievement of an organization's goals. Employees not only play a role in carrying out operational activities, but also contribute to the quality of work and reaching company targets. That's why managing human resources needs to take into account various factors related to employee performance, including compensation, work environment, and work motivation.

Compensation is one of the aspects that companies need to pay attention to in managing employees. Compensation can relate to financial or non-financial rewards that employees receive for their contributions to the company. In the context of human resource management, compensation that matches the job and responsibilities of employees is one aspect that needs to be managed properly. Kasmir is used as one of the references in the discussion about human resource management and performance (Kasmir, 2018). Compensation includes all income in the form of money, direct goods, or indirect goods received by employees

as a reward for the services they provide to the company. Additional financial or non-financial compensation is given at the company's discretion to all employees to improve their well-being, such as holiday allowances and pension money. According to Hasibuan (2020), compensation is all income in the form of money, direct or indirect goods received by employees as a reward for the services they provide to the company. According to Dessler (2024) "Employee compensation is all forms of payment or rewards given to employees that come from their work and has two components: direct payment (in the form of wages, salaries, incentives, commissions, and bonuses), and indirect payment (in the form of financial benefits like insurance and paid vacation from the company)" (Dahlia & Fadli, 2022). Empirical studies likewise show that compensation is positively associated with employee performance (Baladraf & Pogo, 2022; Dwianto & Damanik, 2024; Dwi Utari & Hermina, 2026).

Besides compensation, the work environment is also a factor that needs attention. The work environment includes both physical and non-physical conditions that come with the execution of tasks. A supportive workplace can help employees carry out their duties, while inadequate conditions can become obstacles in getting work done. If the employees perform well, the company will also get a really big dividend (Selamet et al., 2023) A supportive work environment is really important for job satisfaction and can have a positive effect on employees in completing their tasks. The work environment has many aspects that can affect the physical and mental well-being of its employees. It can include both the physical and non-physical work environment. When the work environment is conducive, employees will feel safe and comfortable, allowing them to work at their best (Indra, 2022). Empirical evidence also links the work environment to employee performance (Abun et al., 2022; Dwi Utari & Hermina, 2026).

Good employee performance reflects deep satisfaction and enjoyment in the work done by employees, so the tasks are completed faster with satisfactory results. Along with that, the continuous expansion and improvement of organizational performance faces urgent needs in response to rapid developments in various aspects (Adhika, 2022). So, an effective human resource management strategy and the use of performance measurement systems are seen as key elements for companies to stay relevant and competitive in a dynamic market (Rizki et al., 2024) organizational performance is something that does not just happen but requires a process (Alam et al., 2023). Suputra et al (2021) stated that employee performance is the result of an employee's work or achievement. Employee performance really needs to be continuously improved, considering the competition in this era is getting tougher. Wibowo (2022) mentioned that supervision and rewards are carried out to find out how far individual and team performance goes as a basis to give appropriate bonuses and are used to improve employee performance (Sadat et al., 2020)

This research was carried out at PD 17 Kaya Rasa Garut, a company involved in producing snacks, including lumpia and sumpia, located in Pasirwangi District, Garut Regency, West Java. Based on the preliminary problem identification, the company's issues include the condition of the work facilities, changes in achieving production targets, as well as aspects of job execution and employee motivation. These descriptions serve as the basis for examining the relationship between compensation, work environment, work motivation, and employee performance within the company.

Work motivation is the internal and external drive that encourages employees to exert effort, to work hard and smart, and to voluntarily support the achievement of organizational goals (Nopitasari, Hilda, 2025). Motivation consists of three key elements: needs, effort, and organizational goals. Effort reflects the intensity of motivation, so motivated employees try harder to achieve their goals; however, high effort does not necessarily lead to high performance unless its intensity and quality are directed toward organizational goals, which is why motivation is directly relevant to employee performance (Baladraf & Pogo, 2022)

Previous studies report inconsistent evidence on the mediating role of work motivation: Dwi Utari and Hermina (2026) found that work motivation mediates the effects of compensation and the non-physical work environment on employee performance, whereas Dwianto and Damanik (2024) found no mediation. This study addresses the research gap by simultaneously examining compensation and work environment as antecedents of employee performance, with work motivation serving as a mediating variable among employees of PD 17 Kaya Rasa Garut, Indonesia. The novelty of this study lies in investigating the direct and indirect relationships between compensation, work environment, work motivation, and employee performance within a traditional food production business context. Using a quantitative approach and a PLS-SEM model, this study aims to determine whether compensation and work environment influence employee performance, both directly and indirectly through work motivation, and to identify managerial aspects that require improvement to support employee performance.

1.1. Compensation and Employee Performance

Compensation includes financial returns and non-financial benefits provided to employees in relation to their work. In this study, compensation reflects employees' perceptions of pay, incentives, allowances, facilities, and recognition. Compensation may be associated with performance when employees perceive that the returns they receive correspond to their contribution and completed work. The findings of Dwianto & Damanik (2024) and Baladraf & Pogo (2022) provide relevant empirical context for examining compensation in employee-performance models. Similar findings were reported by Dwi Utari and Hermina (2026), who found that compensation has a positive and significant effect on employee performance.

H1: Compensation has a positive and significant effect on employee performance.

1.2. Work Environment and Employee Performance

The work environment consists of physical and non-physical conditions surrounding employees as they perform their duties. Physical conditions can affect comfort and the ability to complete production tasks, while social relationships and communication can support coordination and cooperation. Prior research has investigated the relationship between work environment and employee performance (Abun et al., 2022; Handayani Harahap et al., 2022)

H2: Work environment has a positive and significant effect on employee performance.

1.3. Compensation and Work Motivation

Decent compensation can make employees excited to improve their performance every day. That's because compensation is a main motivation for working. Employees will feel appreciated and motivated to do their best for the company if there are attractive incentives. Besides that, they'll also be more interested in trying out new ideas and innovating to help the company grow. In the end, this effort will boost productivity and the company's success in the long run. Both intrinsic and extrinsic motivation drive employees to work more effectively in achieving company goals. Research in Indonesia also supports this finding, showing that work motivation and compensation play a big role in boosting employee performance (Akhiryan et al., 2024).

H3: Compensation has a significant effect on work motivation.

1.4. Work Environment and Work Motivation

A comfortable physical environment and supportive workplace relationships may create conditions that help employees feel secure, accepted, and willing to engage in their work. However, motivation may also be influenced by factors outside the immediate work environment. The present study tests whether employees' perceptions of their work environment are associated with work motivation. The work environment can also affect employee performance, because it can either strengthen or weaken it. What this means is all the things around employees that can influence them while carrying out the tasks assigned to them. Generally, the work environment is classified into two types: non-physical and physical (Afandi, 2018). In the following study, the focus is on non-physical environment. Regarding this, it is supported by research (Jamal Fajri, 2019) that the work environment influences employee performance through work motivation (Hidayah & Subkhan, 2025).

H4: Work environment has a significant effect on work motivation.

1.5. Work Motivation and Employee Performance

Work motivation refers to the internal and external forces that encourage employees to exert effort and persist in completing their work. Employees who are motivated may show greater initiative, cooperation, and attention to task completion. Prior research has examined the association between motivation and employee performance (Riyanto et al., 2021; Dwianto & Damanik, 2024). Dwi Utari and Hermina (2026) reported a positive and significant effect of work motivation on employee performance, whereas Dwianto and Damanik (2024) reported no such effect, which shows that the evidence is not uniform.

H5: Work motivation has a positive and significant effect on employee performance.

1.6. The Mediating Role of Work Motivation

Work motivation may act as a mechanism through which compensation and work environment influence performance. Under this explanation, compensation or a supportive environment first strengthens motivation, which in turn contributes to employee performance. The indirect relationships must nevertheless be evaluated separately from the direct effects (Nusraningrum et al., 2024; Handayani Harahap et al., 2022).

H6: Work motivation mediates the effect of compensation on employee performance.

H7: Work motivation mediates the effect of work environment on employee performance.

2. RESEARCH METHOD

2.1. Research Design, Setting, and Sample

This study used a quantitative explanatory design to examine the relationships among compensation, work environment, work motivation, and employee performance. The research was conducted at PD 17 Kaya Rasa Garut, a food-production business located in Pasirwangi District, Garut Regency, West Java, Indonesia. The population comprised 50 active employees, and all 50 employees were included as the sample using a saturated sampling technique. Saturated sampling, also called census sampling, is appropriate when the population is small because every member of the population is used as a respondent (Sugiyono, 2022). Respondents worked in operational and production activities.

2.2. Instrument Development and Data Selection

Primary data were collected through a structured questionnaire distributed directly to all 50 employees of PD 17 Kaya Rasa Garut, Indonesia. The study employed a quantitative research approach, using a saturated sampling technique in which the entire population of 50 employees was included as the research sample. The questionnaire was developed based on the operational definitions, dimensions, and indicators established in the research framework. It consisted of 36 measurement indicators covering four constructs: compensation, work environment, work motivation, and employee performance. Compensation was measured using indicators adapted from (Kasmir, 2018), work environment indicators were based on Prasetyo (2021), work motivation indicators referred to Afandi (2018) and Maslow's hierarchy of needs, and employee performance indicators were based on Kasmir (2019). The items were contextualized to reflect the working conditions and production activities of PD 17 Kaya Rasa without changing the conceptual meaning of the constructs. Instrument development followed three stages. First, each construct was operationally defined from the theoretical sources above, and its dimensions were translated into measurable indicators (Table 1). Second, each indicator was written as a closed-ended statement and adapted to the wording and working conditions of PD 17 Kaya Rasa without changing the meaning of the construct. Third, the instrument was tested empirically through the PLS-SEM measurement model: indicator validity was assessed with outer loadings, convergent validity with the AVE, reliability with Cronbach's alpha, rho_A, and composite reliability, and discriminant validity with cross-loadings and HTMT (Hair et al., 2019; Henseler et al., 2015). The results of these tests are reported in Section 3.2.

All indicators were measured using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), to capture respondents' perceptions of the research variables. The questionnaire used closed-ended statements and was administered face-to-face to facilitate clarification when respondents encountered difficulties understanding an item. The completed questionnaires were collected directly by the researcher and prepared for statistical analysis. Secondary data from relevant books, scientific journals, previous studies, and company documentation were also used to support the development of the research instrument and the interpretation of the findings.

Table 1. Research Construct and Measurement Dimensions

Construct	Dimensions	Indicators
Compensation	Financial compensation: salary/wages, incentives, allowances, and work facilities. Non-financial compensation: recognition and rewards, career development opportunities, a comfortable work environment, harmonious workplace relationships, and job security.	9
Work Environment	Physical work environment**:** lighting, temperature and air circulation, noise levels, and occupational health and safety. Non-physical work environment: relationships among coworkers, relationships between employees and supervisors, and communication across work units.	7
Work Motivation	Physiological needs: income adequacy and basic work facilities. Safety needs: protection from workplace accidents and job security. Social needs: coworker relationships and a sense of belonging. Esteem needs: recognition and trust from supervisors. Self-actualization needs: opportunities to develop potential and skills and meaningful contributions to the company.	10
Employee Performance	Work quality: accuracy, neatness, compliance with standards, and minimal errors. Work quantity: task completion and production targets. Timeliness: meeting deadlines and attendance discipline. Cooperation: teamwork and coordination. Initiative: proactive action and independent problem-solving.	10

Source: Primary survey data, 2026

Table 2. Respondent Characteristics

Characteristic	Category	Frequency	Percentage
Gender	Male	16	32%
	Female	34	68%
Age	Under 20 years	4	8%
	21–30 years	28	56%
	31–40 years	14	28%
	Over 40 years	4	8%
Tenure	1-5 years	22	44%
	6-10 years	18	36%
	11-15 years	3	6%

	>15 years	7	14%

Table 2 shows that most respondents were women (68%), were aged 21–30 years (56%), and had worked at the company for up to ten years (80%). This profile matters for interpreting the results in three ways. First, employees who are young and have relatively short tenure are likely to be at an early career stage, so basic needs such as income adequacy, work facilities, and social belonging may be more salient to them than self-actualization, which is consistent with the highest descriptive score for social needs and the lowest for self-actualization in Section 3.1. Second, because all respondents work in the operational and production activities of one company, their experiences of compensation and the work environment are likely to be similar, which may reduce the variation in responses and help explain the weak relationships with work motivation in Section 3.3. Third, the small and homogeneous sample means that the findings should be generalized with caution.

2.3. Data Analysis

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS. PLS-SEM was chosen for four reasons. First, the sample is relatively small (n = 50), and PLS-SEM can be applied to small samples when the model is not overly complex, although minimum-sample requirements still apply. Second, the model combines four constructs, 36 indicators, and a mediating variable, which PLS-SEM can estimate in a single model. Third, PLS-SEM does not require multivariate normality, which is useful for Likert-scale data. Fourth, PLS-SEM is a variance-based method that focuses on explaining and predicting the variance of endogenous constructs such as employee performance (Hair et al., 2019). The measurement model was evaluated using outer loadings, Average Variance Extracted (AVE), internal consistency reliability (Cronbach's alpha and composite reliability), and discriminant validity (cross-loadings and HTMT). The structural model was assessed using the coefficient of determination (R^2), effect size (f^2), path coefficients, and bootstrapping. Hypotheses were evaluated using the following criteria: t-statistic > 1.96 and p-value < 0.05. Mediation was assessed through specific indirect effects; no Sobel test was used. R^2 values of 0.75, 0.50, and 0.25 were interpreted as substantial, moderate, and weak explanatory power, respectively (Hair et al., 2019), and the mediation pattern was classified following Zhao et al. (2010).

3. RESULTS AND DISCUSSION

3.1. Results

The descriptive results classify compensation and work environment as good, while work motivation and employee performance are classified as fairly good. For compensation, the financial and non-financial dimensions receive broadly similar evaluations. For work environment, physical and non-physical dimensions also receive equal overall scores. In work motivation, social needs receive the highest score, while self-actualization receives the lowest. For employee performance, initiative receives the highest score, whereas work quality receives the lowest. These patterns suggest that management should maintain the compensation and interpersonal aspects that are perceived positively while giving additional attention to work quality, self-development, and the physical comfort of the production area.

Table 3. Descriptive Scores by Construct and Dimension

Construct	Overall score	Category	Key descriptive finding
Compensation	193	Good	Financial and non-financial dimensions are similar
Work environment	192	Good	Physical and non-physical dimensions are similar
Work motivation	150	Fairly good	Social needs highest; self-actualization lowest
Employee performance	149	Fairly good	Initiative highest; work quality lowest

Source: Primary survey data processed by the authors, 2026.

Compensation received the highest overall score 193, followed closely by work environment 192, indicating that employees generally perceived these aspects positively. The financial and non-financial dimensions of compensation were rated similarly, as were the physical and non-physical dimensions of the work environment. Work motivation obtained a lower score of 150, with social needs representing its strongest dimension and self-actualization its weakest. This pattern suggests that employees may experience stronger social connections at work than opportunities to develop their full potential. Employee performance recorded the lowest overall score 149, with initiative rated highest and work quality lowest. This finding identifies work quality as the clearest area for improvement, particularly in maintaining consistent work standards and producing results that meet organizational expectations. The relatively favorable ratings for compensation and work environment should not be interpreted as evidence that all organizational practices are without weaknesses. Differences in scores indicate that employees' perceptions of workplace conditions are not necessarily reflected equally in their motivation and performance. Moreover, the use of self-reported responses within a single organization may limit response variation and introduce social desirability bias. Therefore,

practical priorities should be based on the relative differences among constructs and dimensions, rather than solely on their category classifications.

3.1.1. Measurement Model Evaluation

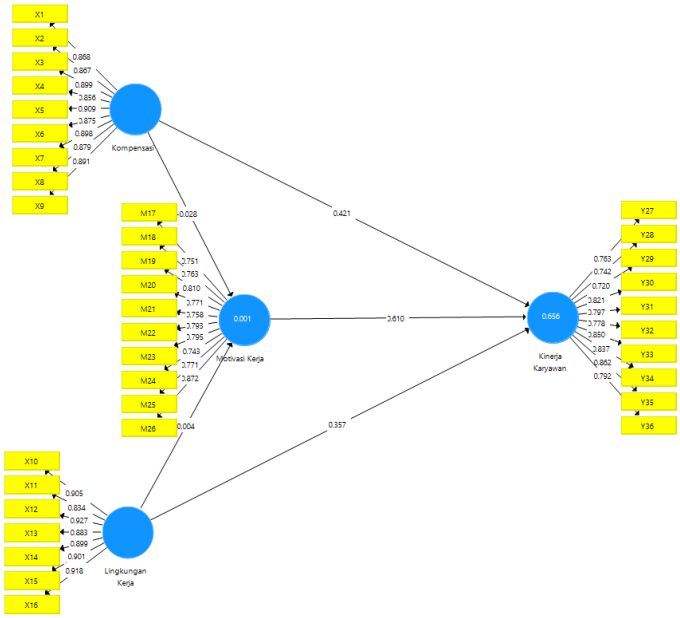


Figure 1. PLS-SEM Bootstrapping Model

The measurement model comprised 36 indicators. All indicators had outer loadings above 0.70. Compensation loadings ranged from 0.856 to 0.909; work environment loadings ranged from 0.834 to 0.927; work motivation loadings ranged from 0.743 to 0.872; and employee performance loadings ranged from 0.720 to 0.862. The AVE values were 0.779 for compensation, 0.802 for work environment, 0.614 for work motivation, and 0.636 for employee performance. Each AVE value exceeded 0.50. Reliability was also satisfactory: Cronbach's alpha ranged from 0.930 to 0.965, rho_A from 0.939 to 0.978, and composite reliability from 0.941 to 0.969, all above the recommended threshold of 0.70 (Table 5). Together with the AVE and discriminant validity results, these values indicate that the questionnaire is valid and reliable.

Table 4. Cross Loading Results

	Compensation	Work Environment	Employee Performance	Work Motivation
M17	-0,092	0,077	0,347	0,751
M18	-0,024	0,039	0,481	0,763
M19	0,070	0,061	0,636	0,810
M20	0,027	-0,054	0,491	0,771
M21	0,100	-0,110	0,420	0,758
M22	0,017	-0,073	0,501	0,793
M23	-0,083	-0,023	0,420	0,795
M24	-0,192	0,023	0,331	0,743
M25	0,049	-0,002	0,439	0,771
M26	-0,173	0,030	0,486	0,872
X1	0,868	-0,128	0,144	-0,191
X10	-0,124	0,905	0,292	0,003
X11	0,062	0,834	0,235	-0,100
X12	-0,002	0,927	0,297	-0,045
X13	-0,013	0,883	0,349	-0,024
X14	0,015	0,899	0,349	0,068
X15	-0,048	0,901	0,256	-0,003
X16	0,001	0,918	0,358	0,042
X2	0,867	-0,109	0,292	-0,007
X3	0,899	0,044	0,345	0,007
X4	0,856	-0,028	0,382	0,013
X5	0,909	0,114	0,451	-0,033
X6	0,875	-0,031	0,311	0,041
X7	0,898	-0,094	0,287	-0,096

X8	0,879	-0,027	0,429	0,076
X9	0,891	-0,004	0,335	-0,151
Y27	0,372	0,259	0,763	0,320
Y28	0,346	0,217	0,742	0,434
Y29	0,348	0,235	0,720	0,485
Y30	0,257	0,176	0,821	0,550
Y31	0,326	0,355	0,797	0,451
Y32	0,182	0,446	0,778	0,400
Y33	0,367	0,252	0,850	0,479
Y34	0,368	0,248	0,837	0,585
Y35	0,351	0,305	0,862	0,518
Y36	0,239	0,285	0,792	0,496

Source: SmartPLS 3 output, 2026

Discriminant validity was supported by the cross-loading assessment and HTMT values below 0.90. The highest HTMT value was 0.618 between employee performance and work motivation. Overall, the reported measurement results support the use of the constructs in the structural model.

Table 5. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Compensation	0,965	0,978	0,969	0,779
Work Environment	0,959	0,968	0,966	0,802
Employee Performance	0,936	0,939	0,946	0,636
Work Motivation	0,930	0,939	0,941	0,614

Source: SmartPLS 3 output, 2026

3.1.2. Structural Model and Hypothesis Testing

The model explained 65.6% of the variance in employee performance ($R^2 = 0.656$; adjusted $R^2 = 0.633$), indicating moderate explanatory power for this construct. By contrast, the model explained only 0.1% of the variance in work motivation ($R^2 = 0.001$; adjusted $R^2 = -0.042$). This very low explanatory power is consistent with the non-significant paths from compensation and work environment to work motivation and suggests that other factors may be more important in explaining employee motivation. According to the rules of thumb of Hair et al. (2019), R^2 values of 0.75, 0.50, and 0.25 indicate substantial, moderate, and weak explanatory power, respectively. The R^2 of 0.656 therefore means that compensation, work environment, and work motivation together account for about two-thirds of the variation in employee performance, while the remaining 34.4% is explained by factors outside the model, such as leadership, work discipline, or organizational culture. In contrast, the R^2 of 0.001 for work motivation is negligible, and its negative adjusted R^2 (−0.042) shows that compensation and work environment add no explanatory value for work motivation beyond chance.

Table 6. Path Coefficients and Hypothesis Testing

Relationship	Path coefficient (β)	t-statistic	p-value	Decision
Compensation → Employee performance	0.421	4.343	<0.001	Supported
Work environment → Employee performance	0.357	3.862	<0.001	Supported
Compensation → Work motivation	−0.028	0.208	0.835	Not supported
Work environment → Work motivation	−0.004	0.026	0.979	Not supported
Work motivation → Employee performance	0.610	8.342	<0.001	Supported

Compensation had a positive and significant effect on employee performance ($\beta = 0.421$; $t = 4.343$; $p < 0.001$). This result indicates that compensation is directly associated with performance in this setting. The company's compensation arrangement includes output-based pay as well as non-financial benefits. A direct link between completed work and compensation may help explain why compensation is associated with performance, although the cross-sectional design does not establish causality.

Work environment also had a positive and significant effect on employee performance ($\beta = 0.357$; $t = 3.862$; $p < 0.001$). This result supports the importance of physical conditions and social relationships for employees' ability to complete their work. The preliminary problem identification noted heat in the production area, related in part to the zinc roof, and concerns about the availability of some work facilities. These issues may warrant practical attention even though the overall descriptive assessment of work environment was classified as good.

In contrast, compensation did not significantly affect work motivation ($\beta = -0.028$; $t = 0.208$; $p = 0.835$), and work environment did not significantly affect work motivation ($\beta = -0.004$; $t = 0.026$; $p = 0.979$). The

coefficients are close to zero and statistically non-significant, so they should not be interpreted as evidence of meaningful negative relationships. The results indicate that perceived compensation and work environment did not explain work motivation in this sample. Other factors, such as team relationships, recognition, perceived achievement, or personal needs, may be relevant, but these factors were not tested as predictors in the present model.

Work motivation had the strongest positive direct association with employee performance ($\beta = 0.610$; $t = 8.342$; $p < 0.001$). This finding suggests that employees who report stronger motivation also tend to report better performance. Descriptive results show that social needs received the highest score among motivation dimensions, while self-actualization received the lowest. The combination of findings suggests that management may benefit from preserving positive team relationships while creating more opportunities for skill development, responsibility, and meaningful contribution.

3.1.3. Mediation Analysis

Table 7. Specific Indirect Effects (Mediation Analysis)

Indirect relationship	Indirect coefficient (β)	p-value	Decision
Compensation → Work motivation → Employee performance	−0.017	0.845	No mediation
Work environment → Work motivation → Employee performance	−0.002	0.980	No mediation

The indirect effect of compensation on employee performance through work motivation was not significant ($\beta = -0.017$; $p = 0.845$). The indirect effect of work environment on employee performance through work motivation was also not significant ($\beta = -0.002$; $p = 0.980$). Therefore, work motivation did not mediate either relationship. Because both direct effects on performance were significant while their corresponding indirect effects were not, the results are consistent with a direct-only non-mediation pattern. Work motivation remains a significant independent predictor of employee performance, but it was not shown to transmit the effects of compensation or work environment in this model.

Why work motivation does not mediate. A mediation effect requires that the independent variable significantly affects the mediator (path a) and that the mediator in turn significantly affects the outcome (path b); the indirect effect is the product of the two paths (Zhao et al., 2010). In this study path b was strong ($\beta = 0.610$), but both path coefficients were close to zero (−0.028 and −0.004), so the indirect effects were also close to zero ($-0.028 \times 0.610 = -0.017$ and $-0.004 \times 0.610 = -0.002$) and not significant. In other words, the absence of mediation arises from the first link of the chain, not from the second.

Several explanations are plausible, although none were tested in this study. First, compensation and work environment were both classified as good overall, which may indicate limited variation in employees' perceptions within one company of 50 employees and therefore little variation to explain differences in motivation. Second, the motivation indicators are based on Maslow's hierarchy of needs, and social needs scored highest while self-actualization scored lowest, so motivation may be driven more by team relationships, recognition, and personal needs than by pay or physical conditions. Third, compensation at the company includes an output-based component, so its relationship with performance may operate directly through the link between output and pay rather than through psychological motivation. Fourth, self-reported data may be affected by social desirability bias. Following Zhao et al. (2010), the pattern is therefore classified as direct-only non-mediation, which suggests that other mediators, or a different role for work motivation such as an independent predictor or moderator, should be explored.

Taken together, three of the seven hypotheses were supported: compensation to employee performance, work environment to employee performance, and work motivation to employee performance. The remaining hypotheses, including both mediation hypotheses, were not supported. These results emphasize the importance of distinguishing a variable's direct association with performance from its role as a mediator.

3.2. Discussion

Compared with previous research, the positive effect of compensation on employee performance is consistent with Dwianto and Damanik (2024), Baladraf and Pogo (2022), and Dwi Utari and Hermina (2026), who also report that compensation improves performance in different organizational settings. The positive effect of the work environment on performance agrees with Abun et al. (2022), who found a significant relationship between the work environment and individual work performance, and with Dwi Utari and Hermina (2026) for the non-physical work environment. The positive effect of work motivation on performance is consistent with Dwi Utari and Hermina (2026) but differs from Dwianto and Damanik (2024), who reported that work motivation had no effect on employee performance.

In contrast, the non-significant effects of compensation and work environment on work motivation differ from Baladraf and Pogo (2022), who found that compensation significantly affects work motivation, and from Dwianto and Damanik (2024), who reported significant effects of both compensation and work environment

on work motivation. The absence of mediation agrees with Dwianto and Damanik (2024), who found that work motivation did not mediate the effects of compensation or work environment on performance, but differs from Dwi Utari and Hermina (2026), who found that work motivation mediates the effects of compensation and the non-physical work environment on performance. These inconsistencies suggest that the mediating role of work motivation depends on the organizational context, the sample, and the way motivation is measured, which is why it needs to be tested in small production-oriented firms such as PD 17 Kaya Rasa.

For PD 17 Kaya Rasa Garut, the findings support maintaining compensation practices while clarifying incentive targets and considering whether incentives can also recognize product quality rather than output volume alone. The company may improve the comfort of the production area through better ventilation, fans or exhaust systems, heat protection for the roof, and adequate tables and chairs. Written quality standards and routine quality checks may also address the relatively low descriptive score for work quality. In addition, training, opportunities to take greater responsibility, and more visible development pathways may help address the comparatively low self-actualization dimension.

Based on these findings, we recommend five concrete actions for management. (1) Compensation: publish written incentive rules that state output targets together with a quality component, for example a bonus that depends on a low defect or return rate, and review the rules every semester. (2) Physical work environment: install exhaust fans or ventilation in the production room, add heat insulation or roof coating to the zinc roof, and provide adequate tables and chairs, starting with the areas that have the highest heat exposure. (3) Work quality: write standard operating procedures with quality standards for each production stage, and have supervisors run routine quality checks and give feedback to employees. (4) Motivation: because self-actualization was the lowest dimension, offer cross-training, job rotation, or the opportunity to become a team leader for high-performing employees, while keeping the team activities that support the relationships employees value. (5) Monitoring: track attendance and production-target achievement every month to evaluate whether these actions improve performance.

The findings should be interpreted in light of several limitations. The study involved 50 employees from a single organization and used questionnaire-based, cross-sectional data. The results therefore should not be generalized automatically to other businesses, and the design does not establish causal direction. The very low R^2 for work motivation also indicates that the model does not adequately explain this construct. Future research could include additional predictors such as leadership, organizational culture, work discipline, or commitment, and could add interviews to explore employees' sources of motivation. These limitations should be acknowledged when interpreting the study's contribution.

4. CONCLUSION

This study examined compensation and work environment as predictors of employee performance and evaluated work motivation as a mediator among employees of PD 17 Kaya Rasa Garut. The results show that compensation, work environment, and work motivation each have a positive and significant direct effect on employee performance. However, compensation and work environment do not have significant effects on work motivation, and work motivation does not mediate either of their relationships with performance. The model explains a moderate share of the variation in employee performance but explains very little of the variation in work motivation.

The findings suggest that the company should address performance through direct attention to compensation practices, physical and social work conditions, and the factors that support employees' motivation. Priority actions include clearer incentive criteria, greater attention to production quality, improvements to ventilation and work facilities, and opportunities for skill development and responsibility. Further research should examine other determinants of motivation and test the model in larger samples and different organizational settings.

For human resource management practice, these findings show that employee performance in a labor-intensive food-production business is shaped directly by how fairly and clearly employees are paid, how comfortable and well equipped their work environment is, and how strongly they are motivated. These factors should be managed as separate levers rather than assuming that pay and facilities will automatically raise motivation. HR managers can therefore design incentive schemes that reward both output and quality, invest in physical working conditions, and build development opportunities and team-based recognition to sustain motivation.

Future research should (1) include other determinants of work motivation and performance, such as leadership style, organizational culture, work discipline, job satisfaction, organizational commitment, work-life balance, and employee engagement, as predictors or as alternative mediators and moderators; (2) test the model with larger samples and in several companies or sectors to allow generalization and multi-group comparison; (3) use longitudinal or mixed-methods designs, for example interviews or focus groups, to clarify causal order and explain why compensation and work environment did not influence motivation; and (4) use more objective performance measures, such as production records or supervisor ratings, to reduce common-method and social-desirability bias.

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