

## EFFECT OF COMPENSATION AND WORK ENVIRONMENT ON EMPLOYEE PERFORMANCE IN PALM OIL PLANTATION SECTOR COMPANIES IN RIAU

**Fitra Inayah**

Universitas Islam Riau

[fitrainayah@student.uir.ac.id](mailto:fitrainayah@student.uir.ac.id)

**Gilang Nugroho**

Universitas Islam Riau

[gilanknugroho@eco.uir.ac.id](mailto:gilanknugroho@eco.uir.ac.id)

### Abstract

*This study aims to analyze the effect of Compensation and Work Environment on Employee Job Satisfaction in Palm Oil Plantation Sector Companies in Riau. The object of this research is the Palm Oil Plantation Sector Companies in Riau Province with a sample of 150 respondents. Data analysis techniques using Structural Equation Modeling using Smart PLS version 3 application. The findings of this study indicate that compensation has a positive and significant effect on employee performance in Palm Oil Plantation Sector Companies in Riau. Meanwhile, the work environment does not have a significant effect on performance. Based on the determination test, it is concluded that compensation and work environment simultaneously affect employee performance in Palm Oil Plantation Sector Companies in Riau*  
*Keywords: Compensation, Work Environment, Performance.*

### Abstrak

*Penelitian ini bertujuan untuk menganalisis pengaruh Kompensasi dan Lingkungan Kerja terhadap Kepuasan Kerja Karyawan pada Perusahaan Sektor Perkebunan Kelapa Sawit di Riau. Objek penelitian ini adalah Perusahaan Sektor Perkebunan Kelapa Sawit di Provinsi Riau dengan sampel sebanyak 150 responden. Teknik analisis data menggunakan Structural Equation Modeling dengan menggunakan aplikasi Smart PLS versi 3. Temuan penelitian ini menunjukkan bahwa kompensasi berpengaruh positif dan signifikan terhadap kinerja karyawan pada Perusahaan Sektor Perkebunan Kelapa Sawit di Riau. Sedangkan lingkungan kerja tidak berpengaruh signifikan terhadap kinerja. Berdasarkan uji determinasi disimpulkan bahwa kompensasi dan lingkungan kerja secara simultan berpengaruh terhadap kinerja karyawan pada Perusahaan Sektor Perkebunan Kelapa Sawit di Riau*  
*Kata Kunci : Kompensasi, Lingkungan Kerja, Kinerja.*

### INTRODUCTION

Palm oil plantations produce fresh fruit bunches (TBS) which are then processed by palm oil companies into Crude Palm Oil (CPO) and Kernel Palm Oil (KPO). Palm oil can also produce vegetable oil that is widely needed by the industrial sector. The nature of palm oil that is resistant to oxidation with high pressure and its ability to dissolve chemicals that are insoluble in other solvents, as well as its high coating power make palm oil can be used for cooking oil, industrial oil, or fuel (Biodiesel) (BPS 2022).

Riau Province is the largest palm oil plantation area in Indonesia. Riau Province contributes 20% of the national palm oil production.<sup>1</sup> Palm Oil Production: Riau Province is one of the largest palm oil producers in Indonesia. The area of palm oil plantations in Riau Province reached around 2.5 million hectares in 2021. Palm oil has become the main economic sector in Riau Province and has made a significant contribution to the local economy.<sup>2,3</sup> The palm oil sector provides employment for thousands of people and contributes significantly to local government revenue.<sup>4,5</sup> Palm oil production also has significant environmental impacts in Riau Province. The extensive use of land for palm oil plantations has caused deforestation and damage to natural habitats.

This has led to the loss of biodiversity and conflicts with local indigenous communities. Sustainability Efforts: The government and palm oil industry in Riau Province have made efforts to improve the sustainability of palm oil production. Many palm oil companies in Riau Province have adopted RSPO (Roundtable on Sustainable Palm Oil) certification to ensure sustainable and responsible practices.<sup>6</sup> Riau Province also faces several land conflicts related to the palm oil industry. Land conflicts occur between palm oil companies and indigenous communities or farmers who claim rights to the land they cultivate. The Riau Provincial Government is working to manage the palm oil sector sustainably. They monitor and supervise palm oil companies, as well as encourage the development of more efficient and environmentally friendly palm plantations. In addition to palm oil production, the palm oil industry in Riau Province is also trying to diversify its products. Some derivative products of palm oil that have been developed include biofuels, chemicals, and other food products.

Based on the results of data processing from the Triwulanan Palm Commodity Company Survey in 2022 (SKB21-Palm Oil) which is integrated with the BPS-PTPN State Plantation Company Survey based on CAWI (BPS-PTPN Online SKB), Large Plantation Company Survey

---

<sup>1</sup> Abdullah, Ariq, Hamid Halin, and Meilin Veronica. "The Influence of Compensation and Work Environment on Employee Performance at Perum DAMRI Palembang City Branch." *International Journal of Marketing & Human Resource Research* 4.1 (2023): 45-52.

<sup>2</sup> Ali, Hapzi. "Literature Review the Effect of Division of Work and Workload on Work Effectiveness and its Impact on Employee Performance." *Dinasti International Journal of Economics, Finance & Accounting* 3.2 (2022): 227-240.

<sup>3</sup> Supian, Dede, and Syahrul Muharam Putra Nugraha. "The Effect of Work Environment and Work Ability on Employee Performance at CV Bias Azizah." *International Journal of Economics (IJE)* 1.2 (2022): 380-387.

<sup>4</sup> AM, E. Nurzaman. "The Influence of Organizational Culture and Organizational Commitment on Employee Performance at the Ministry of Manpower of the Republic of Indonesia." *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)* 3.4 (2020): 3872-3883.

<sup>5</sup> Tabachnick, Barbara G., Linda S. Fidell, and Jodie B. Ullman. "Using multivariate statistics (Vol. 5)." (2007): 481-498.

<sup>6</sup> Putra, I. Nengah Subawa Kardika, and Ni Wayan Mujiati. "The Effect of Compensation, Work Environment, and Work Motivation on Employee Productivity." *European Journal of Business and Management Research* 7.2 (2022): 212-215.

based on CAWI (BPS-PB Online SKB), and the 2022 Annual Plantation Company Survey (SKB22-Annual), a total of 237 active palm oil plantation companies were obtained. Kampar Regency is the regency/city with the highest number of palm oil plantation companies in Riau Province, namely 47 companies. Meanwhile, other regencies that also have quite a lot of palm oil plantation companies are Indragiri Hulu Regency with 37 companies, Rokan Hulu Regency with 34 companies, and Pelalawan Regency with 32 companies.

Compensation is part of the company's policy with all forms of payment intended as a reward for employee performance shown by employees. As a key factor, human resources can determine the success of activities in the company.<sup>7,8</sup> Therefore, the success or failure of an organization or institution will be determined by its human or employee factors in achieving its goals. An employee who has high and good performance can support the achievement of goals and targets that have been set by an organization. All employees here are workers who work and receive wages in employment relationships with companies. With human resources as the main asset, all bank personnel strive to have responsibility in achieving the implementation of established policies. Employee performance can be improved through compensation so that employees have high performance in carrying out their work. Compensation is a way for companies to help employees who work in companies to improve their standard of living and daily needs that increase every year.<sup>9,10</sup> With the compensation provided by the company, it is hoped that employee performance and job satisfaction will increase.

The work environment is everything around workers that can affect them in carrying out the tasks assigned, such as cleanliness, music, and so on.<sup>11</sup> The work environment in palm oil plantation sector companies in Riau can vary depending on the company and working conditions at each location. However, there are several factors that may affect the work environment in palm oil plantation companies in Riau, including weather and environmental conditions.<sup>12</sup> Because

---

<sup>7</sup> Sadewo, I. Putu, Surachman Surachman, and Rofiaty Rofiaty. "The influence of working environment to employee performance mediated by work motivation: A study of Malang, Indonesia retail stores." *International Journal of Research in Business and Social Science* (2147-4478) 10.3 (2021): 213-222.

<sup>8</sup> Samsuar, Alfian, and Pardomuan Sihombing. "Determinant Analysis in Property Stocks Index at Indonesia Stock Exchange." *Dinasti International Journal of Management Science* 2.2 (2020): 255-267.

<sup>9</sup> Sieng, Lai Wei, et al. "Faktor Mempengaruhi Penglibatan Belia dalam Sektor Perladangan Kelapa Sawit (Factors Affecting Youth Participation in the Oil Palm Plantation Sector)." *International Journal of Management Studies* 28.1 (2021): 115-140.

<sup>10</sup> Thabit, Farooq, et al. "The Role of Employee Satisfaction as Mediator in The Relationship Between Rewards, Work Environment, and Employee Performance." *International Journal of Intellectual Human Resource Management (IJHRM)* 3.01 (2022): 42-53.

<sup>11</sup> Nitisemito, Alex S. *Manajemen Personalialia:(Manajemen Sumber Daya Manusia)*. Ghalia Indonesia, 1982.

<sup>12</sup> Thavakumar, D., and S. J. Evangeline. "The Influence of Involvement and Participation, Compensation, Communication and Work-Life Balance on Employee Engagement: A Case of Insurance Companies in Batticaloa District." (2016).

palm oil plantations are located in open natural environments, weather conditions such as rain, heat, and humidity can affect the working conditions of workers.

Sometimes, extreme weather can disrupt the production process and affect the health and safety of workers. The availability of adequate work facilities and equipment is very important for the comfort and health of workers. In some companies, facilities such as bathrooms, rest areas, and work safety equipment may be inadequate. Working conditions in palm oil plantations in Riau are usually involved in work that requires the use of heavy equipment such as tractors or harvesters. Working conditions like this can affect the health of workers if not done properly and without adequate work safety. Workers' rights and welfare are also important for companies to ensure the rights and welfare of workers in the company.<sup>13</sup> This includes fair wages, fair working hours, social security, and opportunities for career development. An inclusive work environment in palm oil plantation companies usually has various types of workers from various backgrounds and abilities. It is important for companies to create an inclusive work environment that appreciates the diversity of workers. However, there are several palm oil plantation companies that have adopted responsible and sustainable practices in their operations and provide a better work environment for their workers. For example, some companies have introduced better work safety training, improved facilities and health care, as well as providing better wages and social security for workers.

Performance is the quality and quantity of work achieved by an employee in carrying out his duties in accordance with the responsibilities given to him.<sup>14</sup> The performance problems that often occur in plantation companies in Riau are work safety and health, the palm oil industry involves high-risk physical work, such as the use of heavy equipment and exposure to chemicals. Lack of awareness and training related to work safety and health can cause accidents and injuries to employees, which negatively impacts their performance.<sup>15</sup> Then poor working conditions, uncomfortable or inadequate work environments, such as hot temperatures, high humidity, and lack of welfare facilities, can affect employee welfare.

This can affect motivation, productivity, and overall performance. Then the lack of training and development, if palm oil companies do not provide adequate training and development for employees, they may have difficulty mastering new skills and knowledge needed to perform their duties. Lack of training can limit employees' ability to develop and contribute

---

<sup>13</sup> Putra, I. Nengah Subawa Kardika, and Ni Wayan Mujiati. "The Effect of Compensation, Work Environment, and Work Motivation on Employee Productivity." *European Journal of Business and Management Research* 7.2 (2022): 212-215.

<sup>14</sup> Mangkunegara, AA Anwar Prabu. "Manajemen Sumber Daya Manusia Perusahaan." (2011).

<sup>15</sup> Yulia, Istahfan Najmi, and Irham Iskandar. "The Influence of Incentives and Compensation on the Employee Performance of the Education Agency of Nagan Raya District: The Role of Work Motivation As A Mediating Variable." *International Journal of Social Science and Economic Research*, 08(01), 95–108, (2023).

optimally. And the lack of communication and employee engagement who feel less involved in decision-making where employees have limited access to information, or lack of effective communication with management, may feel less motivated and less committed to their work. This can negatively impact their performance. After that, conflicts within the team where conflicts between employees or teams that are not well resolved can disrupt cooperation and team performance as a whole. And disharmony within the team can affect work efficiency and productivity.<sup>16</sup> Then environmental and social issues that exist in Palm Oil Companies in Riau are often faced with controversial environmental and social issues, such as deforestation, land conflicts, or human rights issues. Employees may be affected by the negative impacts caused by these issues, which can affect their motivation and performance.

## LITERATURE REVIEW

### Compensation

Compensation is something received by employees as a reward for their performance in carrying out their duties.<sup>17</sup> Every company must be fair in providing compensation according to the workload received by employees. Compensation is the overall arrangement of rewards for employees and managers, both in the form of financial and non-financial goods and services received by each employee.<sup>18</sup> Employee compensation is any form of payment or reward given to employees who work in a company. Compensation is all income in the form of money, direct or indirect goods received by employees as a reward for services provided to the company.<sup>19</sup>

From several definitions above, it can be concluded that compensation given to employees is not only in the form of money but can also be in the form of goods and services.<sup>20</sup> Compensation is given to every employee who has worked in a company as a reciprocal for the work done by the employee.<sup>21,22</sup> The level of compensation given can affect employee performance in increasing productivity.

---

<sup>16</sup> Kharisma, Atika Fitry, and Rina Rosia. "Effect of Competence, Work Environment, and Work Motivation on Employee Performance Through Job Satisfaction." *International Economic and Finance Review* 1.1 (2022): 32-53.

<sup>17</sup> Nurjaman, Kadar. "Manajemen Personalia (Manajemen Personalia dan Ruang Lingkupnya)." *Bandung. CV Pustaka Setia Bandung* (2014).

<sup>18</sup> Sihotang, Ahmad. "Manajemen sumber daya manusia." *Jakarta: Pradnya Paramita* (2007): 1-110.

<sup>19</sup> Hasibuan, Malayu SP, and H. Malayu SP Hasibuan. *Manajemen sumber daya manusia*. Bumi Aksara, 2016.

<sup>20</sup> Lesmana, Muhammad Taufik, and Farhan Anshari Damanik. "The Influence of Work Environment, Work Discipline and Motivation on Employee Performance." *International Journal of Economics, Social Science, Entrepreneurship and Technology (IJESET)* 1.1 (2022): 36-49.

<sup>21</sup> Lestari, Setyani Dwi, et al. "The Influence of Work Environment, Competence and Compensation on Employee Performance through Intervening Variable Job Satisfaction at Bank BJB Tangerang Branch." *International Journal of Academic Research in Business and Social Sciences* 8.11 (2018): 1572-1580.

### **Relationship between Compensation and Performance**

Fair and decent compensation can increase employee motivation and performance because employees feel valued for their contributions to the company and feel motivated to do their best. Compensation can also affect employee retention, which is the company's ability to retain quality and experienced employees.<sup>23,24</sup> Conversely, if employees feel that their compensation is not commensurate with their contributions, they may feel unmotivated and seek other jobs. Therefore, it is important for companies to have fair and transparent compensation policies, as well as objectively measure employee performance and provide appropriate rewards.

H1: Compensation is believed to affect performance.

### **Work Environment**

Work environment means the entire tools and materials faced, the surrounding environment in which one works, and the arrangement of work both as individuals and as groups.<sup>25</sup> Nitisemito states that the work environment is everything around the worker that can affect him in carrying out the tasks assigned to him. The work environment is a condition related to the characteristics of the workplace on employee behavior and attitudes where it is related to psychological changes due to things experienced in work or in certain situations that must continue to be considered by organizations that include job boredom, monotonous work and fatigue.

Based on the opinions of the experts above, it is concluded that the work environment of employees has a significant influence on the company's operations.<sup>26,27</sup> This work environment will affect the company's employees, so that it will directly or indirectly affect the company's

---

<sup>22</sup> Pasimura, Indah, Afrizal Afrizal, and Wilson Novarino. "Impact of Indonesian Sustainable Palm Oil (ISPO) Certification to Environmental Behavior of Palm Oil Plantation Companies." *International Journal of Agriculture System* 10.1 (2022): 26-43.

<sup>23</sup> Norbu, Jigme, and Prateep Wetprasit. "The Study of Job Motivational Factors and Its Influence on Job Satisfaction for Hotel Employees of Thimphu, Bhutan." *Journal of Quality Assurance in Hospitality & Tourism* 22.2 (2021): 245-266.

<sup>24</sup> Perkasa, Rendra Pradana, Muhammad Firdaus, and Amien Pudjanarso. "Impact of Service Quality, Atmosphere of Store, Price and Word of Mouth on Purchase Decisions in Swiwings, Jember." *MBA-Journal of Management and Business Application* 4.1 (2021): 399-406.

<sup>25</sup> Sedarmayanti, M., and M. Pd. "Sumber Daya Manusia dan Produktivitas Kerja." *Bandung: CV. Mandar Maju* (2018).

<sup>26</sup> Suswanto, Vaschalis David. "Influence of Work Culture, Work Environment and Discipline of Work Safety in Safety Employees of Palm Plantation PT. XYZ in East Kalimantan."

<sup>27</sup> Dewi, AA Sagung Kartika. "The Effect of Motivation, Work Environment and Financial Compensation on Employee Performance at Mercure Hotel Kuta." *European Journal of Business and Management Research* 6.6 (2021): 227-231.

productivity. A good work environment will certainly increase the work productivity of employees. Conversely, a poor work environment will decrease the company's productivity.<sup>28</sup>

### **Relationship between Work Environment and Performance**

A good work environment can provide motivation for employees to work better. Adequate facilities and equipment, comfortable physical conditions, and a positive corporate culture can motivate employees to work more productively and efficiently.<sup>29,30</sup> Poor work environment conditions can affect the health and physical condition of employees. For example, poor lighting can cause eye fatigue and headaches, while poor ventilation can cause respiratory problems. In the long run, these conditions can affect employee performance. Good employee training and development can help employees improve their skills and abilities.<sup>31</sup> This can help improve employee performance and improve overall company performance. Clear policies and procedures can help employees work more systematically and efficiently. This can help improve employee performance and improve overall company performance. A good work environment can facilitate better collaboration and communication among employees. This can help improve employee efficiency and performance.<sup>32</sup>

By paying attention to the above factors, a car showroom company can create a good work environment and positively influence employee performance.<sup>33,34</sup> Employees who work in a good environment will be more motivated and work more efficiently and productively, which in turn will help improve overall company performance.

H2: Work environment is believed to affect performance.

### **Performance**

Performance is the result of a job achieved by someone based on job requirements. A job has certain requirements to be done in achieving goals which is also called job standards. Performance in an organization is the answer to the success or failure of organizational goals that

---

<sup>28</sup> Khudhair, Firas Salman, et al. "Impact of Leadership Style on Employee Performance (A Case Study on a Private Organization in Iraq)." *Texas Journal of Multidisciplinary Studies* 13 (2022): 15-32.

<sup>29</sup> Asmit, Brilliant, and Deddy P. Koesrindartoto. "Identifying the entrepreneurship characteristics of the oil palm community plantation farmers in the Riau area." *Gadiah Mada International Journal of Business* 17.3 (2015): 219-236.

<sup>30</sup> Policy, Reviewer. "An Open Access International Journal Explore Your Research to the world...." *Development* 4.02 (2021).

<sup>31</sup> Schultz, Duane P., and Sydney Ellen Schultz. *Theories of Personality*. Cengage Learning, 2016.

<sup>32</sup> Maina, Peter, Moses Abednego Ollengo, and Esther Wanja Nthiga. "Trends in leather processing: A Review." (2019).

<sup>33</sup> Kurniawan, Herriyanto, et al. "Human Capital Strategy Implementation for Start-up Business over Islamic Boarding Schools (Pesantren) Noor Halal Minimarket." *Journal of Multidisciplinary Academic* 4.3 (2020): 194-198.

<sup>34</sup> Furadantin, R. "Analisis Data Menggunakan Aplikasi SmartPLS v. 3.2. 7 2018." *Jurnal Manajemen* 1.1 (2018): 1-18.

have been set.<sup>35</sup> Performance is a comparison of work results achieved by employees with predetermined standards.

H3: Compensation and work environment are believed to affect performance.

## RESEARCH METHOD

This type of research is quantitative descriptive research that aims to determine how much compensation and work environment affect employee performance in the Palm Oil Plantation Sector Company in Riau. The data obtained are based on primary and secondary data. Primary data were obtained by distributing questionnaires to respondents. While the secondary data were obtained from research through books, documents, previous research, and interviews conducted by researchers with managers or leaders related to the research object.

The population of this study is employees who work in the Palm Oil Plantation Sector Company in Riau, which amounts to 237 companies with a sample selection method using the Cluster Random Sampling technique, which is a sampling method where a large population is divided into groups called clusters. In cluster random sampling, several clusters are randomly selected to be the research sample. After that, all members in the selected cluster will be part of the sample. The sample in this study is the palm oil plantation sector company in Riau consisting of 4 districts that produce the most palm oil, namely Kampar Regency, Indragiri Hulu Regency, Rokan Hulu Regency and Pelalawan Regency which amounted to 150 respondents.

The research respondents are described generally by presenting characteristics seen from gender, age, education level and length of work. The number used in this study is 150 respondents.

---

<sup>35</sup> Bangun, Wilson. "Manajemen Sumber Daya Manusia. Jakarta: Erlangga." *Internatinal Journal* 4.2 (2012): 42-58.

**Table 1. Respondent Identification**

Category	Items	Amount	Percentage
1. Gender	Man	93	62%
	Woman	57	38%
		150	100%
2. Age Level	20 - 25	47	31.33%
	26 - 30	34	22.67%
	31 - 35	25	16.67%
	36 - 40	24	16%
	41 - 50	20	13.33%
	> 50 year	0	0%
		150	100%
3. Level of Education	SMA/SMK/MA	87	58%
	Diploma	13	8.67%
	Bachelor (S1)	50	33.33%
	Master (S2)	0	0%
		150	100%
4. Working Period	1-5 Years	73	48.67%
	6-10 Years	46	30.67%
	11-15 Years	12	8%
	> 15 Years	19	12.67%
		150	100%

*Source: Processed Data, 2023*

Respondents in this study were dominated by men at 62%. For the classification of respondents based on age, the 20-25 age group had a higher percentage of 31.33% because at that age, they have a higher level of work productivity and dominance. Based on the level of education, high school/ vocational school/ madrasah graduates dominated this study at 58%. The most dominant work period is 1-5 years with a percentage of 48.67%.

The measurement model is measured from the value of the outer loading (reflexive indicator) on each indicator to the latent variable. This value shows the weight of each indicator as a measure of each variable. Indicators with large outer loading or outer weight indicate that the indicator is the strongest (dominant) variable measure.

## **RESULT AND DISUCSSION**

The data collection results were entered and the indicator feasibility was tested using the Smart PLS version 3 application before the Evaluation of Measurement Model was carried out. The first step researchers evaluated the value of each statement item produced to measure the reflective indicator. The acceptable value limit according to Tabachnik and Fidell (2007) in (Pradana Perkasa et al., 2021) is loading above 0.71 (excellent), loading 0.63 (very good), loading 0.5 (good), loading 0.45 (fair) and loading 0.32 (poor).

## Evaluation of Measurement Model

### Validity Test

An indicator is declared valid according to Tabachnik and Fidell (2007) loading above 0.71 (excellent) on the construct variable being tested. The output of the processing results of the validity test using Smart PLS Version 3 loading factor in the figure and outer loading table gives the following results:

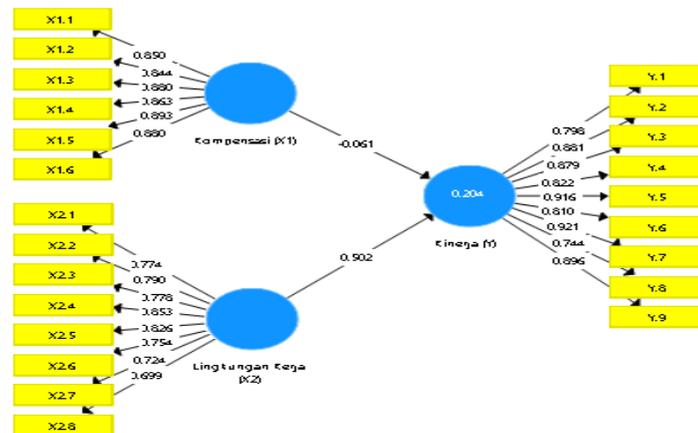


Figure 1. Algorithmic PLS Path Diagram

Source: Processed application data Smart PLS Version 3 2023

Table 1. Validity Test Results

	Compensation (X1)	Work Environment (X2)	Performance (Y)
X1.1	<b>0.850</b>		
X1.2	<b>0.844</b>		
X1.3	<b>0.880</b>		
X1.4	<b>0.863</b>		
X1.5	<b>0.893</b>		
X1.6	<b>0.880</b>		
X2.1		<b>0.774</b>	
X2.2		<b>0.790</b>	
X2.3		<b>0.778</b>	
X2.4		<b>0.853</b>	
X2.5		<b>0.826</b>	
X2.6		<b>0.754</b>	
X2.7		<b>0.724</b>	
X2.8		<b>0.699</b>	
Y.1			<b>0.798</b>
Y.2			<b>0.881</b>
Y.3			<b>0.879</b>

<b>Y.4</b>	<b>0.822</b>
<b>Y.5</b>	<b>0.916</b>
<b>Y.6</b>	<b>0.810</b>
<b>Y.7</b>	<b>0.921</b>
<b>Y.8</b>	<b>0.744</b>
<b>Y.9</b>	<b>0.896</b>

Source: Processed application data Smart PLS Version 3. 2023

After the loading factor was carried out, the loading value showed that the strong indicators had a value above  $>0.7$  (excellent), then further data analysis looked at the validity value of each variable (AVE) on the Reliability and Validity constructs as follows:

**Table 2. Results of Construct Reliability and Validity Test**

	<b>Cronbach's Alpha</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
<b>Compensation (X1)</b>	<b>0.935</b>	<b>0.948</b>	<b>0.754</b>
<b>Work Environment (X2)</b>	<b>0.906</b>	<b>0.924</b>	<b>0.602</b>
<b>Performance (Y)</b>	<b>0.954</b>	<b>0.960</b>	<b>0.729</b>

Source: Processed application data Smart PLS Version 3 2023

The analysis of the validity test results in the table above shows that the Average Variance Extracted (AVE) value is above  $>0.5$  for all constructs contained in the research model. The AVE construct results for the four variables above also meet the requirements for convergent validity.

### **Reliability Test**

Furthermore, the reliability test is seen from the results of the composite reliability value in table 3. Composite reliability values above  $>0.7$  mean that the construct can explain more than 50% of the indicator variance. All constructs in the estimated model meet the criteria for discriminant validity. The lowest composite reliability value is 0.924 for the work environment construct. The reliability test is strengthened by Cronchbach's Alpa in the Smart PLS Version 3 output with a suggested value of  $>0.6$ , in the table above shows Cronchbach's Alpa values for all constructs  $>0.6$ . The lowest construct value for the work environment construct is 0.906.

### **Evaluation of Structural Model**

The initial step in evaluating the structural model is to analyze and check for collinearity between constructs and the predictive ability of the model. This is then followed by measuring the

predictive ability of the model using five criteria: coefficient of determination ( $r^2$ ), path coefficients, cross-validated redundancy (Q2), and path coefficients.<sup>36</sup> The coefficient of determination (r-square) is used to see the test value that is only owned by the exogenous variable, evaluated through testing the significance of the influence of the exogenous (independent) variable on the endogenous (dependent) variable.

**Tabel 3. R Square**

	<b>R Square</b>	<b>R Square Adjusted</b>
<b>Performance (Y)</b>	0.718	0.708

Source: Processed smart application data PLS Version 3 202 3

The test results show a value of 0.718 for the compensation and work environment constructs on performance. According to Sarstedt et al. (2017) in (Furadantin, 2018), the coefficient of determination is expected to be between 0 and 1, with  $r^2$  values of 0.60 (strong), 0.50 (moderate), and 0.25 (weak). Based on the data processing results, the  $r^2$  value is 0.718 or 71.8%, which means that the ability of the performance variable to explain the variance of its dependent variable is at a strong level.

### Hypothesis Testing

Based on the data processing that has been carried out using Smart PLS version 3 analysis to answer the hypothesis. Hypothesis testing in this study was carried out using the bootstrapping procedure. This study uses a 95% confidence level so that the precision level or limit of inaccuracy of alpha is 5% (0.05) while the t-table value is 1.28. If the t-table value > 1.28, then the hypothesis is accepted. The results of the bootstrapping analysis are as follows:

**Table 4. Bootstrapping Test Results**

	<b>Original Sample (O)</b>	<b>Sample Mean (M)</b>	<b>T Statistics ((O/STDEV))</b>	<b>P Values</b>
<b>Compensation (X1) -&gt; Performance (Y)</b>	0.601	0.586	3.703	<b>0.000</b>
<b>Work Environment (X2) -&gt; Performance (Y)</b>	0.266	0.286	1.528	<b>0.127</b>

Source : Processed application data S mart PLS Version 3. 202 3

<sup>36</sup> Sembiring, Hendri. "Effect of Compensation and Organizational Culture on Spirit of Work and Its Impact on Employee Performance at PT Mopoli Raya Medan." *International Review of Management and Marketing* 9.5 (2019): 173-178.

**Hypothesis Testing (H1)**, table 5 answers the first hypothesis that there is an insignificant effect between compensation and performance with a t-statistic value of  $0.513 < 1.28$  t-table with a positive original sample value of 0.601, meaning that compensation has a positive and significant effect on performance.

**Hypothesis Testing (H2)**, table 5 answers the second hypothesis that there is no significant effect between the work environment and performance with a t-statistic value of  $1.528 > 1.28$  t-table with a positive original sample value of 0.266, meaning that the work environment has no significant effect on performance.

**Hypothesis Testing (H3)**, table 5 answers the third hypothesis that there is an effect between compensation and work environment on performance simultaneously with an  $r^2$  value of 0.718 or 71.8% with a strong level of influence.

## Discussion

### The Effect of Compensation on Performance

Compensation has a positive and significant effect on employee performance in Palm Oil Companies in Riau. Compensation is a form of reward given by an organization to employees in exchange for work or services performed. Fair and adequate compensation can motivate employees to work harder and be more productive. Based on this theory, we can conclude that employees who are paid fairly for the work they do tend to be happier and more motivated to achieve better results. Employees who are satisfied with their compensation are also more likely to be committed to the company and more likely to stay for longer periods. The results of this study support the theoretical study by Garry Dessler in Sutanto (2023) with the conclusion that compensation states that employees will be satisfied with their compensation if they feel that the compensation is fair and equal to the contribution they make to the company.<sup>37</sup>

Employees will feel unfair if they are paid less than other employees who do the same or similar work. Conversely, if employees feel that they are paid more than they should, then they may feel guilty or uncomfortable. Therefore, companies must ensure that the compensation system applied is fair and equal to employee contributions. Employees will feel motivated to achieve organizational goals if they believe that their hard work will be rewarded appropriately. Employees will work harder if they believe that they can achieve established goals and that the rewards they receive will be commensurate with their efforts. Therefore, companies must ensure that employees have realistic expectations about the rewards they will receive if they achieve organizational goals. Employees will continue to behave that is valued with rewards or

---

<sup>37</sup> Sutanto, Alex Tribuana, et al. "The Influence of Work Motivation and Work Environment on Employee Performance at the Labuhan Batu District Education Office with Work Discipline as Intervening Variables." *Journal of Current Science Research and Review*, 06(02), (2023).

recognition. Employees will be motivated to achieve organizational goals if they feel that their efforts are recognized and appreciated by the company. Therefore, companies should consider ways to reward or recognize employees who perform well or achieve organizational goals.

### **The Effect of Work Environment on Performance**

Work environment does not significantly affect performance in Palm Oil Companies in Riau. The work environment is the condition and situation in which a person works, including the physical and social conditions around the workplace. The work environment can include everything from buildings, facilities, infrastructure, organizational culture, company policies, communication, and the dynamics of relationships between employees and management. A good and conducive work environment can improve employee welfare, motivate them to work better, and increase productivity. Conversely, a poor work environment can have a negative impact on employee health, happiness, and performance. Therefore, it is important for companies to create a safe, comfortable, and supportive work environment so that employees can work optimally and achieve organizational goals well.

The results of this study support the theoretical study by Nitisemito (in Sugiyarti, 2016) with the conclusion that the work environment and performance show that a conducive and positive work environment can positively affect employee performance, such as increasing motivation, job satisfaction, and productivity.<sup>38</sup> A good work environment can include things like support from colleagues and management, recognition and appreciation for good performance, opportunities for development, and employee welfare guarantees.

### **The Effect of Compensation and Work Environment on Performance**

Based on the findings of this study, it shows that compensation and work environment simultaneously affect performance. The compensation referred to is the reward or remuneration given to employees for the work assigned to employees who work in Palm Oil Companies in Riau. Furthermore, the work environment referred to in this study is the condition and situation in which a person works, including the physical and social conditions in Palm Oil Companies in Riau. The work environment at Palm Oil Companies in Riau can include everything from buildings, facilities, infrastructure, organizational culture of Palm Oil Companies in Riau, policies of Palm Oil Companies in Riau, and the dynamics of relationships between employees and

---

<sup>38</sup> Sugiarti, Endang. "Pengaruh Lingkungan Kerja dan Kompensasi terhadap Kinerja Karyawan pada PT. Sukses Expamet." *Journal of Education, Humaniora and Social Sciences (JEHSS)* 3.2 (2020): 479-486.

management of Palm Oil Companies in Riau. The findings of this study support previous research that states that compensation and work environment affect performance.<sup>39</sup>

## CONCLUSION

Based on the discussion of the analysis results in the research that has been conducted, the following conclusions can be drawn: 1) Compensation significantly affects employee performance in Palm Oil Companies in Riau. This finding shows that the object of this study has applied concepts and theories related to compensation; 2) The work environment does not affect performance in Palm Oil Companies in Riau. This finding shows that the performance of the object in Palm Oil Companies in Riau is not influenced by the work environment; and 3) Compensation and work environment have a strong level of simultaneous influence based on the determination test. This finding means that compensation and work environment simultaneously affect performance in Palm Oil Companies in Riau.

## REFERENCES

- Abdullah, Ariq, Hamid Halin, and Meilin Veronica. "The Influence of Compensation and Work Environment on Employee Performance at Perum DAMRI Palembang City Branch." *International Journal of Marketing & Human Resource Research* 4.1 (2023): 45-52.
- Ali, Hapzi. "Literature Review the Effect of Division of Work and Workload on Work Effectiveness and its Impact on Employee Performance." *Dinasti International Journal of Economics, Finance & Accounting* 3.2 (2022): 227-240.
- AM, E. Nurzaman. "The Influence of Organizational Culture and Organizational Commitment on Employee Performance at the Ministry of Manpower of the Republic of Indonesia." *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)* 3.4 (2020): 3872-3883.
- Asmit, Brilliant, and Deddy P. Koesrindartoto. "Identifying the entrepreneurship characteristics of the oil palm community plantation farmers in the Riau area." *Gadjah Mada International Journal of Business* 17.3 (2015): 219-236.
- Bangun, Wilson. "Manajemen Sumber Daya Manusia. Jakarta: Erlangga." *Internatinal Journal* 4.2 (2012): 42-58.
- Dewi, AA Sagung Kartika. "The Effect of Motivation, Work Environment and Financial Compensation on Employee Performance at Mercure Hotel Kuta." *European Journal of Business and Management Research* 6.6 (2021): 227-231.
- Furadantin, R. "Analisis Data Menggunakan Aplikasi SmartPLS v. 3.2. 7 2018." *Jurnal manajemen* 1.1 (2018): 1-18.
- Hasibuan, Malayu SP, and H. Malayu SP Hasibuan. *Manajemen sumber daya manusia*. Bumi Aksara, 2016.

---

<sup>39</sup> Sembiring, Hendri. "Effect of Compensation and Organizational Culture on Spirit of Work and Its Impact on Employee Performance at PT Mopoli Raya Medan." *International Review of Management and Marketing* 9.5 (2019): 173-178.

- Kharisma, Atika Fitry, and Rina Rosia. "Effect of Competence, Work Environment, and Work Motivation on Employee Performance Through Job Satisfaction." *International Economic and Finance Review* 1.1 (2022): 32-53.
- Khudhair, Firas Salman, et al. "Impact of Leadership Style on Employee Performance (A Case Study on a Private Organization in Iraq)." *Texas Journal of Multidisciplinary Studies* 13 (2022): 15-32.
- Kurniawan, Herriyanto, et al. "Human Capital Strategy Implementation for Start-up Business over Islamic Boarding Schools (Pesantren) Noor Halal Minimarket." *Journal of Multidisciplinary Academic* 4.3 (2020): 194-198.
- Lesmana, Muhammad Taufik, and Farhan Anshari Damanik. "The Influence of Work Environment, Work Discipline and Motivation on Employee Performance." *International Journal of Economics, Social Science, Entrepreneurship and Technology (IJESSET)* 1.1 (2022): 36-49.
- Lestari, Setyani Dwi, et al. "The Influence of Work Environment, Competence and Compensation on Employee Performance through Intervening Variable Job Satisfaction at Bank BJB Tangerang Branch." *International Journal of Academic Research in Business and Social Sciences* 8.11 (2018): 1572-1580.
- Maina, Peter, Moses Abednego Ollengo, and Esther Wanja Nthiga. "Trends in leather processing: A Review." (2019).
- Mangkunegara, AA Anwar Prabu. "Manajemen Sumber Daya Manusia Perusahaan." (2011).
- Nitisemito, Alex S. *Manajemen Personalia: (Manajemen Sumber Daya Manusia)*. Ghalia Indonesia, 1982.
- Norbu, Jigme, and Prateep Wetprasit. "The Study of Job Motivational Factors and Its Influence on Job Satisfaction for Hotel Employees of Thimphu, Bhutan." *Journal of Quality Assurance in Hospitality & Tourism* 22.2 (2021): 245-266.
- Nurjaman, Kadar. "Manajemen Personalia (Manajemen Personalia dan Ruang Lingkungnya)." Bandung. CV Pustaka Setia Bandung (2014).
- Pasimura, Indah, Afrizal Afrizal, and Wilson Novarino. "Impact of Indonesian Sustainable Palm Oil (ISPO) Certification to Environmental Behavior of Palm Oil Plantation Companies." *International Journal of Agriculture System* 10.1 (2022): 26-43.
- Perkasa, Rendra Pradana, Muhammad Firdaus, and Amien Pudjarso. "Impact of Service Quality, Atmosphere of Store, Price and Word of Mouth on Purchase Decisions in Swiwings, Jember." *MBA-Journal of Management and Business Application* 4.1 (2021): 399-406.
- Policy, Reviewer. "An Open Access International Journal Explore Your Research to the world...." *Development* 4.02 (2021).
- Putra, I. Nengah Subawa Kardika, and Ni Wayan Mujiati. "The Effect of Compensation, Work Environment, and Work Motivation on Employee Productivity." *European Journal of Business and Management Research* 7.2 (2022): 212-215.
- Putra, I. Nengah Subawa Kardika, and Ni Wayan Mujiati. "The Effect of Compensation, Work Environment, and Work Motivation on Employee Productivity." *European Journal of Business and Management Research* 7.2 (2022): 212-215.
- Sadewo, I. Putu, Surachman Surachman, and Rofiaty Rofiaty. "The influence of working environment to employee performance mediated by work motivation: A study of Malang, Indonesia retails stores." *International Journal of Research in Business and Social Science* (2147-4478) 10.3 (2021): 213-222.

Fitra Inayah, Gilang Nugroho: Effect of Compensation and Work Environment on Employee Performance in Palm Oil Plantation Sector Companies in Riau

- Samsuar, Alfian, and Pardomuan Sihombing. "Determinant Analysis in Property Stocks Index at Indonesia Stock Exchange." *Dinasti International Journal of Management Science* 2.2 (2020): 255-267.
- Schultz, Duane P., and Sydney Ellen Schultz. *Theories of Personality*. Cengage Learning, 2016.
- Sedarmayanti, M., and M. Pd. "Sumber Daya Manusia dan Produktivitas Kerja." Bandung: CV. Mandar Maju (2001).
- Sembiring, Hendri. "Effect of Compensation and Organizational Culture on Spirit of Work and Its Impact on Employee Performance at PT Mopoli Raya Medan." *International Review of Management and Marketing* 9.5 (2019): 173-178.
- Sieng, Lai Wei, et al. "Faktor Mempengaruhi Penglibatan Belia dalam Sektor Perladangan Kelapa Sawit (Factors Affecting Youth Participation in the Oil Palm Plantation Sector)." *International Journal of Management Studies* 28.1 (2021): 115-140.
- Sihotang, Ahmad. "Manajemen sumber daya manusia." Jakarta: Pradnya Paramita (2007): 1-110.
- Sugiarti, Endang. "Pengaruh Lingkungan Kerja dan Kompensasi terhadap Kinerja Karyawan pada PT. Sukses Expamet." *Journal of Education, Humaniora and Social Sciences (JEHSS)* 3.2 (2020): 479-486.
- Supian, Dede, and Syahrul Muharam Putra Nugraha. "The Effect of Work Environment and Work Ability on Employee Performance at CV Bias Azizah." *International Journal of Economics (IJEC)* 1.2 (2022): 380-387.
- Suswanto, Vaschalis David. "Influence of Work Culture, Work Environment and Discipline of Work Safety in Safety Employees of Palm Plantation PT. XYZ in East Kalimantan."
- Sutanto, Alex Tribuana, et al. "The Influence of Work Motivation and Work Environment on Employee Performance at the Labuhan Batu District Education Office with Work Discipline as Intervening Variables." *Journal of Current Science Research and Review*, 06(02), (2023).
- Tabachnick, Barbara G., Linda S. Fidell, and Jodie B. Ullman. "Using multivariate statistics (Vol. 5)." (2007): 481-498.
- Thabit, Farooq, et al. "The Role of Employee Satisfaction as Mediator in The Relationship Between Rewards, Work Environment, and Employee Performance." *International Journal of Intellectual Human Resource Management (IJIHRM)* 3.01 (2022): 42-53.
- Thavakumar, D., and S. J. Evangeline. "The Influence of Involvement and Participation, Compensation, Communication and Work-Life Balance on Employee Engagement: A Case of Insurance Companies in Batticaloa District." (2016).
- Yulia, Isthaan Najmi, and Irham Iskandar. "The Influence of Incentives and Compensation on the Employee Performance of the Education Agency of Nagan Raya District: The Role of Work Motivation As A Mediating Variable." *International Journal of Social Science and Economic Research*, 08(01), 95-108, (2023).