COMPETENCY AND COMPENSATION ANALYSIS OF WORK PERFORMANCE WITH WORK ENVIRONMENT AS AN INTERVENING VARIABLE IN THE AGENCY FINANCE AND REGIONAL ASSETS OF NORTH SUMATRA PROVINCE

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Abstract

This study aims to analyze the influence of competence and compensation on work performance with the work environment as an intervening variable at the Regional Finance and Asset Agency of North Sumatra Province. The research approach used is quantitative with a survey method by distributing questionnaires to employees as respondents. The research sample was determined using a purposive sampling technique so that the data obtained was in accordance with the research needs of 80 respondents. The data were analyzed using path analysis to measure the direct and indirect effects between variables. The results of the study indicate that competence has a positive and significant effect on work performance, but compensation has a positive but not significant effect on work performance. Competence has a positive and significant effect on the work environment, as well as compensation has a positive and significant effect on work performance. The work environment also has a positive and significant effect on employee work performance. Thus, the work environment is proven to mediate the influence of competence and compensation on employee work performance. The results of this study are expected to be input for management in improving work performance by increasing employee competence, providing appropriate compensation, and creating a supportive work environment.

Keywords: *Competence, Compensation, Work Environment, Work Performance.*

INTRODUCTION

Human resources are the main asset in an organization, including in the government sector. The success of an organization in achieving its goals is highly dependent on the quality and performance of its employees. In this case, employee performance is an important indicator in assessing the effectiveness and efficiency of task implementation. According to Mangkunegara (2017), work performance is the result of work in terms of quality and quantity achieved by an employee in carrying out his duties in accordance with the responsibilities given. At the Regional Finance and Asset Agency of North Sumatra Province, the demand for fast, accurate, and accountable services requires employees with high work performance. However, in its implementation, challenges are still found such as lack of work motivation, incompatibility of competencies with tasks, and a work environment that is not yet fully conducive. This encourages the importance of research on factors that influence employee work performance.

One of the main factors that influence work performance is competence. Competence reflects work ability that includes knowledge, skills, and work attitudes. According to Sedarmayanti (2017), competence is a work ability of each individual that includes aspects of knowledge, skills, and work attitudes that are in accordance with established standards. Employees who have high competence will find it easier to adapt to work demands, complete tasks well, and be able to provide optimal contributions to the organization. In addition to competence, compensation also plays an important role in encouraging employee work performance. Fair and appropriate compensation will increase employee job satisfaction and loyalty. According to Hasibuan (2016), compensation is all income in the form of money, goods directly or indirectly received by employees in return for services provided to the organization. When employees feel appreciated through proper compensation, they will be more motivated to work optimally.

However, the relationship between competence and compensation on work performance does not occur directly. The work environment also plays a role as a variable that can strengthen or weaken the influence of both factors. A comfortable, supportive, and safe work environment will increase work enthusiasm and allow employees to show their best performance. According to Nitisemito (2018), the work environment is the entire equipment and conditions around the workplace that can affect the smoothness and satisfaction of work. Therefore, it is important to conduct research on the influence of competence and compensation on work performance by including the work environment as an intervening variable. This research is expected to provide a clear picture of the strategy for improving employee work performance at the Financial and Regional Asset Agency of North Sumatra Province, so as to be able to realize better and more competitive public services.

LITERATURE REVIEW

1. Work Performance
   a) Definition of Work Performance
      Gomes (2016) work performance is the result achieved by a person according to the role played in the organization and is influenced by the ability, expertise, motivation and opportunity to do the job.
   b) Work Performance Indicators
      According to Gomes (2016), work performance indicators include several main aspects that can be used to measure the extent to which employees achieve the expected work results. The following are work performance indicators according to Gomes:
      1) Quantity of Work
         Describes the amount of work that can be completed in a certain time.
      2) Quality of Work
         Demonstrates the quality of the work results carried out, seen from the accuracy, neatness, and conformity to work standards.
      3) Punctuality
         Relating to the ability to complete work according to the specified deadline.
      4) Presence
         Describes the consistency of employee presence at work, which has an impact on the smooth running of organizational tasks.
      5) Cooperation
         Demonstrate individual ability to work collaboratively with co-workers, both in teams and in interpersonal relationships.
2. Work environment
   a) Understanding the Work Environment
      According to Sedarmayanti (2017) the work environment is all the tools, materials, conditions, and procedures around workers that can affect the implementation of work and work comfort. A good work environment will provide a sense of security, comfort, and motivate employees to work more productively. Conversely, a bad work environment can cause stress, reduce work enthusiasm, and even affect employee attendance and work performance.
   b) Work Environment Indicators
      According to Sedarmayanti (2017), work environment indicators are divided into two main groups, namely:
      1. Physical Work Environment
         1) The physical work environment relates to conditions that can be observed and felt directly by the five senses. The indicators include:
         2) Lighting
            Sufficient light will improve concentration and reduce eye fatigue.
         3) Air circulation and ventilation
            Fresh air and good ventilation are important for health and working comfort.
         4) Noise
            The noise level must be within comfort limits so as not to disturb concentration.
         5) Workspace layout (Layout)
            Efficient spatial planning supports smooth employee activities and mobility.
         6) Cleanliness and safety
            A clean and safe workspace will encourage employees to work more comfortably and productively.

2. Non-Physical Work Environment (Psychological/Social)

This includes social and psychological aspects that support work comfort, such as:

1) Relationships between coworkers

A harmonious working atmosphere can improve teamwork.

2) Relationship with superiors

A good relationship between subordinates and superiors encourages effective communication.

3) Leadership and management support

A fair and participative leadership style creates a positive work climate.

4) Organizational culture

Values, norms and habits shared within an organization contribute to creating a comfortable work environment.

3) Compensation

a) Definition of Compensation

Dessler (2015) "Compensation refers to all forms of pay or rewards going to employees and arising from their employment." Meaning: Compensation includes all forms of pay or rewards given to employees as a result of the employment relationship.

b) Compensation Indicators

Compensation indicators according to Gary Dessler (2015) can be divided into two main categories, namely direct compensation and indirect compensation. Each category has specific indicators that are often used in research or human resource management practices.

1. Direct Compensation

These are financial rewards that employees receive directly in the form of money:

a) Base Salary: Fixed compensation received periodically.

b) Overtime Pay: Additional payment for hours worked outside normal hours.

c) Bonus (Bonus Pay): Incentive based on certain performance or achievements.

d) Incentives: Additional income for productivity or work results.

2. Indirect Compensation

Forms of appreciation that are not in the form of direct money, but still have economic value:

a) Allowances: Such as food, transportation, and housing allowances.

b) Social Security & Insurance: For example, BPJS Health and Employment.

c) Work Facilities: Official car, laptop, or comfortable work space.

d) Welfare Programs: For example, health programs, recreation, or scholarships for employees' children.

4) Competence

a) Understanding Competence

According to Sedarmayanti (2017), competence is the work ability of each individual which includes aspects of knowledge, skills and work attitudes in accordance with established standards.

b) Competency Indicators

Competency indicatorsaccording to Sedarmayanti (2017):

1) Knowledge

An individual's ability to understand and master certain information, procedures, or areas required in carrying out tasks.

2) Skills

A person's technical and non-technical abilities in completing work effectively and efficiently.

3) Work Attitude (Attitude)

An individual's attitude towards work, including motivation, responsibility, discipline, and cooperation.
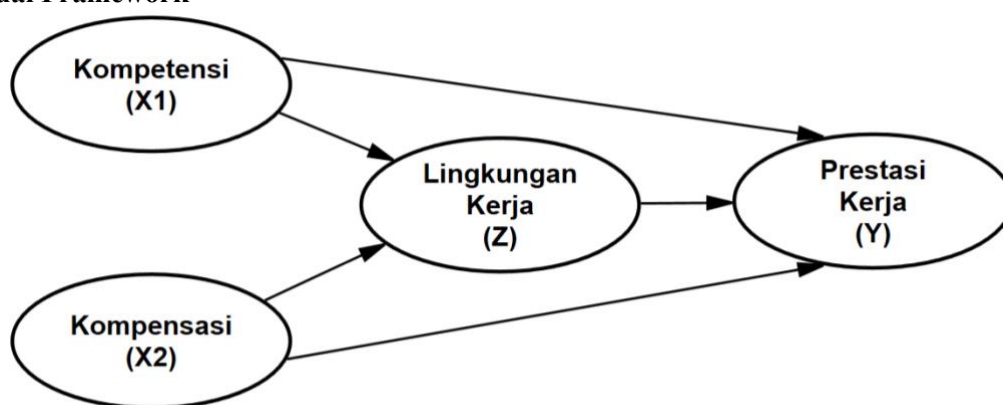
Conceptual Framework

Figure 1. Conceptual Framework of Research

Research Hypothesis

H1: Competence has a positive and significant effect on work performance at the Regional Finance and Asset Agency of North Sumatra Province.

H2: Compensation has a positive and significant effect on work performance at the Regional Finance and Asset Agency of North Sumatra Province.

H3: Competence has a positive and significant influence on the work environment at the Regional Finance and Asset Agency of North Sumatra Province.

H4: Compensation has a positive and significant effect on the work environment at the Regional Finance and Asset Agency of North Sumatra Province.

H5: The work environment has a positive and significant influence on work performance at the Regional Finance and Asset Agency of North Sumatra Province.

H6: Competence has a positive and significant effect on work performance through the work environment at the Regional Finance and Asset Agency of North Sumatra Province.

H7: Compensation has a positive and significant effect on work performance through the work environment at the Regional Finance and Asset Agency of North Sumatra Province.

RESEARCH METHOD

Types of research

The type of research used by the researcher is quantitative research. This type of quantitative research is conducted to create a study that aims to adjust a study and to analyze the Influence of Competence and Compensation on Work Performance with the Work Environment as an Intervening Variable at the Financial and Regional Asset Agency of North Sumatra Province.

Research Location and Research Time

The location of the research was conducted at the Regional Finance and Asset Agency of North Sumatra Province, located at Jl. Jl. Imam Bonjol No. 61, Suka Damai, Medan 20142. The research period was carried out for 3 months, starting from April to June 2025.

Population and Sample

The population and sample in this study were all permanent employees at the Financial and Regional Asset Agency of North Sumatra Province. The number of employees at the Financial and Regional Asset Agency of North Sumatra Province is 135 employees, with details: 80 ASN employees and 55 people as honorary workers. In this study, samples were taken only from ASN employees as many as 80 people.

Research Data Sources
The data sources used in this study are primary data.

RESULTS AND DISCUSSION
Outer Model Analysis
Outer Model Analysis muse*PLS Algorithm*, produce:
1)   Validity Test

Table 1. ValuesOuter Loadings

	Compensation	Competence	Work environment	Work performance
X1.1		0.891		
X1.2		0.895		
X1.3		0.877		
X2.1	0.806			
X2.2	0.755			
X2.3	0.741			
X2.4	0.759			
X2.5	0.775			
X2.6	0.803			
Y.1				0.794
Y.2				0.766
Y.3				0.799
Y.4				0.774
Y.5				0.764
Z.1			0.803	
Z.2			0.798	
Z.3			0.777	
Z.4			0.779	

Source: Smart PLS Output, 2025

Based on the values in Table 1 above, it shows the results of testing the outer model through the loading factor value /outer loadings, all indicators in each variable have a loading value ≥ 0.70. This shows that each indicator is able to represent the construct being measured validly and strongly. Therefore, it can be concluded that all items in the questionnaire have met the convergent validity criteria and can be used in further analysis. For more details, the above values can also be seen in the following figure.
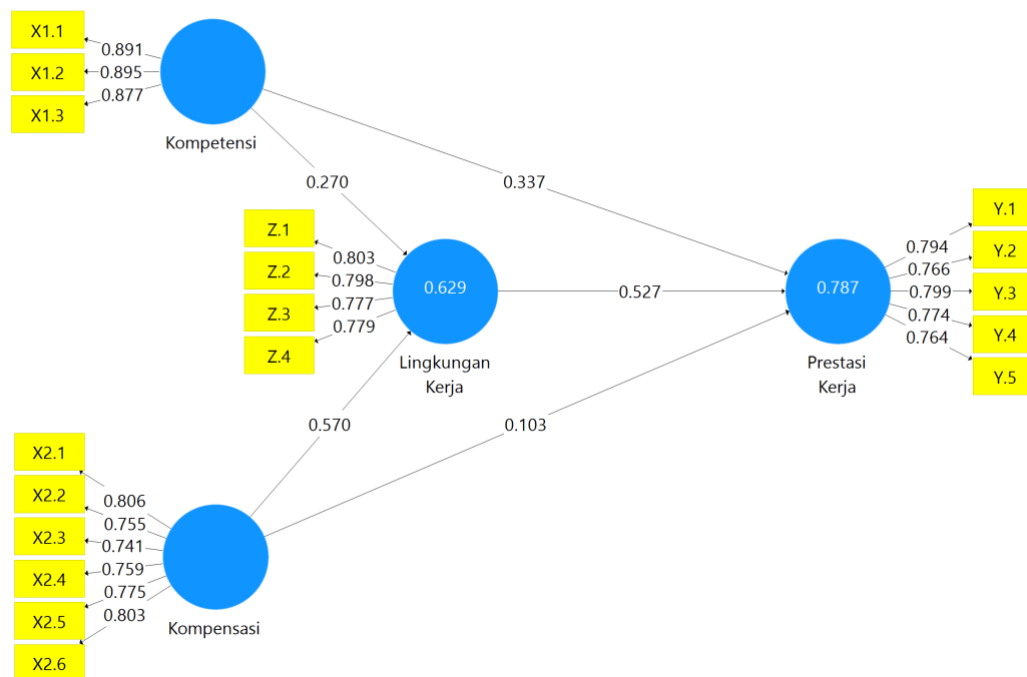
Figure 1. Outer Loudings

In this study there is an equation and the equation consists of two substructures for substructure 1:

$Z = \beta_1 X_1 + \beta_2 X_2 + e_1$

$Z = 0.270 X_1 + 0.570 Z + e_1$

For substructure 2:

$Y = \beta_2 X_1 + \beta_3 X_2 + \beta_3 Z + e_2$

$Y = 0.337 X_1 + 0.103 X_2 + 0.527 Z + e_2$

2) Reliability Test

Table 2. Construct Reliability and Validity Test

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Compensation	0.866	0.868	0.899	0.599
Competence	0.866	0.873	0.918	0.788
Work environment	0.799	0.801	0.869	0.623
Work performance	0.839	0.839	0.886	0.608

Source: Smart PLS Output, 2025

From Table 2 above, the results of the reliability test show that the Cronbach's Alpha and Composite Reliability values for all constructs have values above 0.70. This shows that all indicators have high internal consistency and can be relied on to measure their respective constructs. Thus, the research instrument is declared reliable and suitable for use in testing the structural model.

Structural Model Testing (Inner Model)

Inner model or structural model testing is conducted to see the relationship between constructs, significance values and R-square of the research model. The structural model is evaluated using R-square for the dependent construct.

1) **Coefficient of Determination (R2)**
In assessing the model with PLS, it starts by looking at the R-square for each dependent latent variable. The table below is the result of Rsquare estimation using SmartPLS.

Table 3. R Square Results

	R Square	R Square Adjusted
Work environment	0.629	0.619
Work performance	0.787	0.779

Source: Smart PLS, 2025

In table 3 there is an R square value on both dependent variables for the work environment variable there is an R square value of 0.629 meaning that the influence of competence and compensation is 0.629 or 62.9% the rest is on other variables outside the model. The R square value of work performance is 0.787 meaning that the influence of competence, compensation and work environment is 0.787 or 78.7% the rest is on other variables outside the model.

2) **Hypothesis Testing**
a) Direct Influence Between Variables
The direct influence between variables can be seen in the path coefficients value. The results of data processing show the direct influence value can be seen in the following table.

Table 4. Path Coefficients (Direct Effect)

	Original Sample	T Statistics	P Values	Conclusion
Competence -> Work Performance	0.337	3,247	0.001	Accepted
Competence -> Work Environment	0.270	2,275	0.023	Accepted
Compensation -> Work Performance	0.103	1,001	0.317	Rejected
Compensation -> Work Environment	0.570	5,490	0,000	Accepted
Work Environment -> Work Performance	0.527	5,334	0,000	Accepted

Source: Smart PLS Output, 2025

In the results of Table 4 there are direct influence values which will be explained as follows:
1. Competence has a positive and significant influence on work performance with a t-statistic value of3.247 above 1.96 and a significance of 0.001 below 0.05 means that competence has a positive and significant effect on work performance because the significance value is below 0.05. The results of this study are in line with the results of previous studies, namely Baharuddin (2022) which stated that competence has a positive and significant effect on the work performance of sales employees.
2. Competence has a positive and significant influence on the work environment with a t-statistic value of2.275 above 1.96 and a significance of 0.023 below 0.05 means that competence has a positive and significant effect on the work environment because the significance value is below 0.05.
3. Compensation has a positive but not significant effect on work performance with a t-statistic value of1.001 below 1.96 and a significance of 0.317 above 0.05 means that compensation has a positive and significant effect on work performance because the significance value is below 0.05. The results of this study are in contrast to previous studies, namely that compensation has a positive and significant effect on work performance at PT. Rayateh Utama Medan (Simangunsong, 2022).

4. Compensation has a positive and significant effect on the work environment with a t-statistic value of 5,490 above 1.96 and a significance of 0.000 below 0.05 means that compensation has a positive and significant effect on the work environment because the significance value is below 0.05.

5. The work environment has a positive and significant influence on work performance with a t-statistic value of 5.334 above 1.96 and a significance of 0.000 below 0.05 means that the work environment has a positive and significant effect on work performance because the significance value is below 0.05. The results of this study are in accordance with the results of previous studies, namely Kusumaningrum's research (2024) which stated that the work environment has a positive and significant effect on work performance of employees of the DIY Environmental and Forestry Service.

b) Indirect Influence Between Variables

The indirect influence between variables can be seen in the specific indirect effects value. The results of data processing show the indirect effect value can be seen in Table 5 below.

Table 5. Specific Indirect Effects (Indirect Effects)

	Original Sample	T Statistics	P Values	Conclusion
Competence -> Work Environment -> Work Performance	0.142	2,333	0.020	Accepted
Compensation -> Work Environment -> Work Performance	0.301	3,430	0.001	Accepted

Source: Smart PLS, 2025

In table 5 there is an indirect influence between variables which will be explained as follows:

1. Competence has a positive and significant influence on work performance through the work environment with a t-statistic value of 2.333 and a significance value of 0.020 means that the work environment acts as an intervening variable between competence and work performance.

2. Compensation has a positive and significant effect on work performance through the work environment with a t-statistic value of 3.430 and a significance value of 0.001 means that the work environment plays a very important role as an intervening variable between compensation and work performance because its direct influence is not significant, while its indirect influence is significant.

CONCLUSION

1. Competence has a positive and significant influence on work performance at the Regional Finance and Asset Agency of North Sumatra Province.
2. Compensation has a positive and significant effect on work performance at the Regional Finance and Asset Agency of North Sumatra Province.
3. Competence has a positive and significant influence on the work environment at the Regional Finance and Asset Agency of North Sumatra Province.
4. Compensation has a positive and significant effect on the work environment at the Regional Finance and Asset Agency of North Sumatra Province.
5. The work environment has a positive and significant influence on work performance at the Regional Finance and Asset Agency of North Sumatra Province.
6. Competence has a positive and significant influence on work performance through the work environment at the Regional Finance and Asset Agency of North Sumatra Province.
7. Compensation has a positive and significant effect on work performance through the work environment at the Regional Finance and Asset Agency of North Sumatra Province.

SUGGESTION

1. In the competency variable, it turns out that the indicator with the lowest value is the statement "I demonstrate a positive work attitude such as discipline, honesty, and responsibility". Suggestions that can be given are strengthening the internalization of work ethics values and leaders becoming role models for their employees.

2. Compensation with the statement "I receive bonuses based on predetermined performance achievements.". For the suggestion, there needs to be an implementation of a transparent and measurable performance assessment system.
3. For the work environment variable with the statement "The relationship between employees in my workplace is harmonious". Suggestions from the agency that can be given are building a collaborative work culture and holding team strengthening activities.
4. Work performance with the statement "I am able to work together with colleagues effectively in a team". Suggestions that can be given are holding teamwork training and creating a team evaluation system, not just individuals.

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