

## Compensation and Work Culture: Impact on Outsourcing Performance

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### Abstract

*This research aims to investigate the influence of two key factors, namely compensation and work culture. This research uses a quantitative research approach. Study population 81 person. Samples were selected using saturated samples. Data collection uses an online questionnaire with Google form. The research results reveal that compensation has an insignificant effect on outsourcing performance and work culture has a positive and significant effect on outsourcing performance. Competitive compensation is important in retaining outsourcing service providers and is a motivation for outsourcing, but it does not always have a significant impact on their work results. The uniqueness of this finding lies in the emphasis that work culture factors have a greater influence on outsourcing performance than compensation factors. Therefore, companies are expected to consider strengthening a positive work culture as an approach to increasing cooperation with outsourcing service providers.*

### Keywords

compensation; work culture; outsourcing performance



## I. Introduction

Outsourcing companies have grown in importance and are now a standard feature of the modern economy (Safitri and Handayani (2022). Outsourcing has been a standard practice in several nations, including Indonesia, where it has grown rapidly (Izzati, 2018). Other countries that have adopted this strategy include China, India, and the Philippines. A business practice known as outsourcing occurs when an organization uses resources or services from another organization to do certain tasks that are not the company's primary emphasis (Panjaitan, 2016). Business success in outsourcing firms can be significantly impacted by an organization's performance. Companies that employ its services or its partners can accomplish their aims more successfully and efficiently if it performs well. As such, it is crucial.

Compensation is one of the factors influencing outsourcing performance. Competitive and equitable pay can encourage workers to give their best effort (Zulfanni & Nugraha, 2021). Workplace culture variables are additional variables that can affect outsourcing success in addition to remuneration. This component significantly affects how well a company performs (Abidin et al., 2023). According to Angeline et al. (2019), a positive work culture facilitates the development of a favorable and effective work environment.

One of the long-standing providers of outsourcing services in Indonesia is PT. Yangka Aprilindo Makassar, which has collaborated with numerous domestic businesses, state-owned enterprises, and public colleges in the country. When partners in this

partnership complain to the outsourced service provider, it becomes an urgent issue that must be taken into account when managing the relationship between the main business and its external service provider partners pertaining to the issue of subpar work culture and quality for the available people. Concerning outsourcing labor, other issues include ambiguous work schedules, confusing career pathways, welfare, and erratic pay. The issue that outsourcing service providers have with their workforce is that they lack discipline and take carelessness in their work.

The employee compensation factor in the outsourcing model is a complex issue that creates challenges for outsourcing companies and employees who are part of external service providers. The second factor is the work culture of outsourcing employees. External work culture problems consist of; value and cultural differences, misaligned corporate identity, communication gaps, lack of ownership, lack of understanding of internal processes, lack of team spirit, language problems and job insecurity (Ftriyaningrum, 2019).

In this context, the aim of this research is to investigate the direct influence of compensation and work culture on outsourcing performance. It is hoped that the results of this research will provide a better understanding of the factors that influence the performance of outsourced employees, so that companies as providers of outsourcing services can take appropriate steps to improve the performance of outsourcers.

## **II. Review of Literature**

### **2.1 Outsourcing Employee Performance Theory**

Performance is the result of the efforts of someone who has the ability and actions in a certain situation. Performance appraisal is the process through which organizations evaluate or assess employee performance. In order for a company to achieve its stated goals, it must use organizational means consisting of resources that play an active role in achieving the goals of the company concerned. Active individual performance in achieving the company's goals in question. Individual performance has a close relationship with the performance of an institution or company. In other words, a person's performance is high if he or she has high skills, is willing to work according to the agreed wage or salary (Simon, 2017).

Outsourcing performance refers to evaluating or measuring the results or achievements of processes or activities carried out by third parties or vendors assigned to carry out work that is usually carried out by the company itself. In the context of outsourcing, Safitri & Handayani (2022) performance involves measuring the extent to which a third party is able to meet or exceed the expectations and requirements set by the company. This includes various factors, such as productivity, quality of work, level of punctuality, attendance and discipline, and customer satisfaction.

The purpose of measuring outsourcing performance is to ensure that the third party can deliver the desired results and in accordance with established standards. Outsourcing performance evaluation helps companies manage, monitor and improve their relationships with vendors, as well as make strategic decisions related to outsourcing collaboration. It is important to note that outsourcing performance measurement must be based on clear parameters, measurable results, and open and transparent communication between the company and third parties (Kristine, 2017). Several theories by Ftriyaningrum (2019) related to outsourcing performance, namely agency economic theory, resource and capability theory, transaction efficiency theory.

Herniah & Sudirman (2020), the performance of outsourced employees can vary depending on several factors, namely; employee quality and competency, leadership and supervision, relationship with the assigning company, contract uncertainty. Indicators that can be used to measure the performance of outsourced employees consist of; productivity, quality of work, level of punctuality, attendance and discipline, customer satisfaction (Laily et al., 2023)

## 2.2 Compensation Theory

Employees are social entities who are the most important asset of every organization or company. They always play an active role and become planners, implementers and controllers who achieve company goals. They have goals, thoughts, feelings and desires that can influence how they feel about their work. This attitude determines work performance, dedication and affection for the work given to him. This attitude can take the form of positive and negative attitudes. Positive attitudes must be encouraged and negative attitudes must be eliminated as soon as possible to create discipline (Syarief, 2022)

Compensation is all income in the form of money or goods directly or indirectly received by employees as compensation for services provided to the company. The amount of compensation has been determined and known in advance, so that employees know exactly how much compensation they will receive. This compensation is used by employees and their families to meet their living needs. The amount of compensation reflects the status, recognition and level of fulfillment of needs enjoyed by employees and their families. If the status and fulfillment of needs increases, in turn job satisfaction will be better. This is where the real importance of compensation lies for employees as sellers of physical and mental energy (Edy Sutrisno, 2019).

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Compensation theory explains the relationship between compensation given to employees and their motivation and performance. According to theory, fair and competitive compensation can be a motivating factor for employees to provide their best performance. Compensation can take the form of salaries, allowances, bonuses and other incentives given to employees in return for their contributions to the organization. In addition, compensation is a reward received by employees as a form of appreciation for the contributions made to the organization, both financial and non-financial. Compensation indicators consist of; salary, incentives, allowances and office facilities (Pembriana et al., 2022).

Compensation is an award given by a company to its employees, for the employee's willingness to carry out various tasks and work within the company itself. Apart from that, fair compensation based on the employee's contribution is the concept of the definition of compensation. Awards in the form of compensation can function as a tool for companies to influence employee behavior (Suryani, 2019). In a simpler sense, compensation is income received by employees in the form of money or in the form of goods given directly or indirectly as compensation for services provided to the company (Srimindarti, 2012).

Compensation is the total reward received by employees as appreciation for the contributions made to the organization, both financial and non-financial. Financial compensation is something received by employees in the form of salaries, wages, bonuses,

premiums, holiday allowances, old age allowances, medical or health insurance, insurance and other similar things paid by the company. Meanwhile, non-financial compensation is remuneration provided by the company to employees, not in the form of money, but in the form of facilities. Non-financial compensation consists of position, opportunities, promotions, recognition of work, new discoveries, special achievements (Suryani, 2019) .

Compensation consists of components of the entire compensation program consisting of direct and indirect compensation provided with the aim of providing stimulation and motivation to the workforce to improve work performance as well as production efficiency and effectiveness. Therefore, if given correctly, employees will be more satisfied in achieving organizational goals (Nugraha & Tjahjawati, 2018) . In general, according to Widyawati (2018) , "compensation groupings are divided into three, namely 1) direct financial compensation includes a person's payment in the form of wages, salaries, commissions and bonuses, 2) indirect financial compensation (allowances) includes financial rewards that are not included in direct compensation. This type of compensation includes a large collection that is usually received indirectly by employees, 3 ) non-financial compensation includes a person's satisfaction from the work itself or from the psychological and/or physical environment in which the person works."

Previous studies (Kristine, 2017 ; Fauzan, 2022 ; Pembriana et al., 2022 ; Suryani, 2019) show that good compensation can increase employee job satisfaction, motivation, commitment and loyalty. In the context of outsourcing companies, attractive compensation can help companies to attract and retain high-quality employees, which in turn can contribute to company performance.

H1: Compensation has a significant effect on the performance of outsourced workers

### 2.3 Work Culture Theory

Work culture theory explains the role of organizational culture in shaping employee behavior and performance. Work culture includes the values, norms, beliefs, and practices held and practiced by members of the organization. A positive and supportive work culture can create a motivating, collaborative and innovative work environment. Work culture according to (Fatimah & Frinaldi, 2020) "is a collection of general perceptions of all employees as members of the organization. In addition, work culture is a form of assumption that is held and accepted implicitly by a group and determines how the group feels, thinks and reacts to its diverse environment. Work culture indicators consist of; 1) oriented towards the results to be achieved, 2) oriented towards employees, 3) aggressive in working, 4) maintain and maintain price stability."

Work culture is a guideline based on a view of life as a level of habit, behavior and driving intensity that becomes a culture of community and organizational life which is visible from the nature and changes into character, beliefs, ideals, understanding and activities that are formed in a job. According to (Salsabila & Anitra, 2021)

Work culture can be understood as a connection between important elements in an organization that is run by employees. Work culture is not an independent element, but is related to elements of organizational culture, organizational values, work ethic, and individual mindset, so before discussing work culture, we must first understand organizational culture (Sianturi et al. , 2021) . Organizational culture is developed from a collection of norms, values, beliefs, hopes, assumptions and philosophies of the people within it, therefore it does not rule out the possibility that it will then be clearly visible in individual and group behavior (Muratin, 2022 ) .

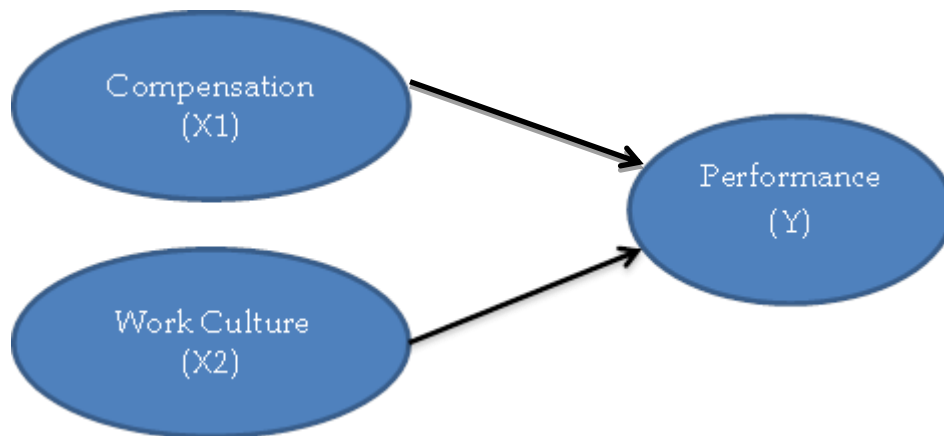
Organizational culture is also the basis for practices within the organization, including how organizational members complete work and interact with others, as a

manifestation of work culture. Organizational culture grows into a control mechanism, influencing the way employees interact with stakeholders outside the organization (Pradana & Sutoro, 2022) . Work culture begins with values that are consistently agreed upon from the start and have been conveyed within the company. The results of the internalization of these values can be seen from the daily work behavior of each employee. The work culture in question can be seen from the work ethic shown which then proceeds from values and becomes a work culture and then emerges as a work ethic which becomes the driving force for the mindset of every employee in the company environment (Sanjaya, 2021) .

Previous research (Anggeline et al., 2019 ; Pradana & Sutoro, 2022 ; Fatimah & Frinaldi, 2020) shows that a strong and positive work culture can improve individual and organizational performance. A work culture that promotes cooperation, open communication, rewards for achievements, and career development opportunities can have a positive impact on the performance of outsourcing companies.

H2: Work culture has a significant effect on the performance of outsourced workers

The conceptual framework and research model can be seen in Figure 1 below



*Figure 1. Conceptual Framework*

### III. Research Methods

This research uses a quantitative approach to examine the influence of compensation and work culture on outsourcing performance. A quantitative approach will allow researchers to collect data in the form of numbers and use them for relevant statistical analysis. This design observes the relationship between independent variables (compensation and work culture) and independent variables (outsourcing performance) in one time period.

The population of this study consisted of outsourcing employees of PT. Yanka Aprilindo Makassar with 81 employees working at Makassar State University. The research sample was selected using a saturated sample. The number of samples required will be determined based on adequate statistical considerations to achieve the desired level of confidence (Jamali, 2022) .

Data collection in this research used a questionnaire instrument. The questionnaire is designed to collect data regarding compensation variables, work culture and outsourcing performance. The questions in the questionnaire are based on concepts that have been established in the theoretical basis. Questionnaires were distributed to outsourcing employees who were respondents in this research. The process of filling out the

questionnaire is carried out online with *Google from Questionnaire* using a 5 point Likert scale from 1 to 5. Numbers 1 (strongly disagree) and 5 (strongly agree)

Data collected through questionnaires was analyzed using statistical techniques. Data analysis includes descriptive analysis and inferential analysis. Descriptive analysis will be used to present a general description of the sample characteristics. Next, inferential analysis is used to test the research hypothesis and identify the influence of compensation and work culture on outsourcing performance. The appropriate statistical technique uses multiple linear regression with *Partial Least Squares (PLS)* (Hair et al., 2012) .

PLS Regression is a more flexible technique than traditional linear regression because it combines factor analysis and linear regression in one approach. This helps overcome multicollinearity problems and has the advantage of dealing with relatively small data samples. It will be used to analyze the relationship between the independent variable and the dependent variable. Statistical significance was evaluated using previously established significance levels. Apart from statistical analysis, this research will also consider other factors that can influence *outsourcing performance* through a literature review and descriptive analysis. This will provide a more comprehensive understanding of the factors that influence outsourcing performance.

PLS analysis is carried out using three stages, namely outer model analysis, inner model analysis and hypothesis testing. Outer model analysis is carried out to ensure that the measurements used are suitable for use as measurements (valid and reliable). Outer model analysis can be seen from several indicators, namely convergent validity, discriminant validity, unidimensionality. Meanwhile, inner model analysis or structural model analysis is carried out to ensure that the structural model built *is robust* or accurate (Guenther et al., 2023) .

## IV. Result and Discussion

### 4.1 Data Analysis

Testing of the data analysis requirements in this research was obtained from the results of PLS algorithm calculations which were shown by the loading or outer loading factor values to determine convergent validity, cross loading to determine discriminant validity, composite reliability, Cronbach alpha, and AVE ( Average Variance Extracted) values to determine reliability.

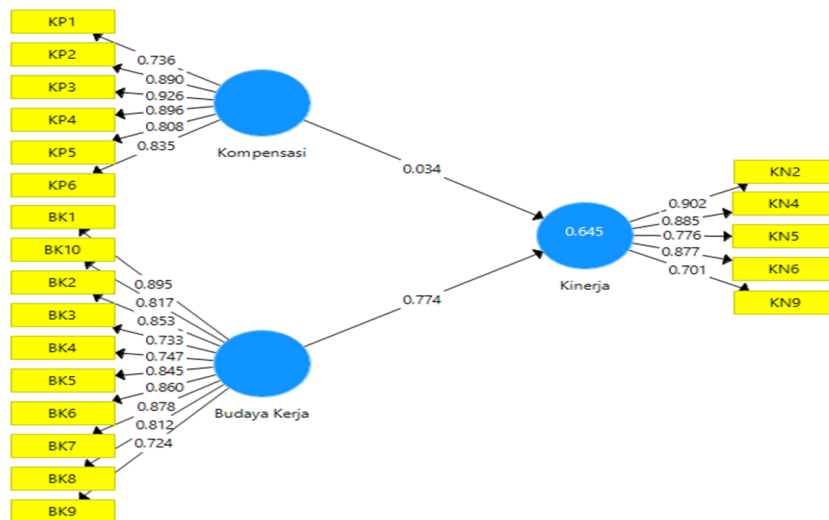
Convergent validity aims to determine the validity of each construct or latent variable. There are two types of validity in PLS SEM. When conducting convergent validity testing, it can be assessed based on outer loadings or loading factors and Average Variance Extracted (AVE). An indicator can be declared to meet convergent validity and have a high level of validity when the outer loading value is  $> 0.70$  while the Average Variance Extracted (AVE) value is  $> 0.50$ .

**Table 1.** Outer Loading

Indicator	Work Culture	Performance	Compensation
BK1	0.895		
BK10	0.817		
BK2	0.853		
BK3	0.733		
BK4	0.747		
BK5	0.845		
BK6	0.860		

BK7	0.878	
BK8	0.812	
BK9	0.724	
KN2		0.902
KN4		0.885
KN5		0.776
KN6		0.877
KN9		0.701
KP1		0.736
KP2		0.890
KP3		0.926
KP4		0.896
KP5		0.808
KP6		0.835

Based on the *outer loading table* in table 1, the research variables consisting of the work culture construct consisting of 9 items obtained factor loadings  $> 0,7$ , compensation consisting of 6 items obtained factor loadings  $> 0,7$  and the performance of 5 items obtained factor loading results  $> 0,7$ . Based on the explanation of each variable by looking at all indicators that are  $> 0,7$ , it can be concluded that all indicators in the research construct have a high value and have met good *Convergent Validity*. To see an overview of the loading factors that have been processed using PLS algorithm calculations to produce the factor loading image as follows.



**Figure 2.** Measurement Model

Discriminant Validity is carried out by looking at the cross loading values of construct measurements. The cross loading value shows the magnitude of the correlation between each construct and its indicators and indicators from other block constructs. A measurement model has good discriminant validity if the correlation between the construct and its indicators is higher than the correlation of indicators from other block constructs. After processing the data using SmartPLS 3.0, the cross loading results can be shown in table 2.

**Table 2.** Cross Loading

Construct	Work Culture	Performance	Compensation
BK1	0.895	0.725	0.823
BK10	0.817	0.746	0.687
BK2	0.853	0.735	0.801
BK3	0.733	0.514	0.636
BK4	0.747	0.561	0.621
BK5	0.845	0.696	0.656
BK6	0.860	0.720	0.754
BK7	0.878	0.684	0.697
BK8	0.812	0.591	0.647
BK9	0.724	0.519	0.522
KN2	0.728	0.902	0.684
KN4	0.679	0.885	0.621
KN5	0.565	0.776	0.452
KN6	0.744	0.877	0.605
KN9	0.600	0.701	0.459
KP1	0.574	0.516	0.736
KP2	0.730	0.488	0.890
KP3	0.794	0.639	0.926
KP4	0.755	0.701	0.896
KP5	0.703	0.548	0.808
KP6	0.723	0.566	0.835

From the *cross loading results*, it shows that the correlation value of the construct with its indicators is greater than the correlation value of other constructs. In this way, all constructs or latent variables already have good *discriminant validity compared to indicators in other blocks* . Next evaluation is by comparing the root of the AVE with the construct correlation. The recommended result is that the AVE root value must be higher than the correlation between constructs.

**Table 3.** Average Variance Extracted (AVE) Value

Construct	Average Variance Extracted (AVE)
Work Culture	0.670
Performance	0.692
Compensation	0.724

Based on this table, all constructs show an AVE value greater than 0.50 , namely with the smallest value being 0.670 for the work culture variable, performance being 0.692 and the highest AVE value being compensation of 0.724.

Apart from being measured by assessing convergent validity and discriminant validity, the outer model can also be done by looking at the reliability of the construct or latent variable which is measured by the composite reliability value. A construct is declared reliable if the composite reliability has a value  $> 0.7$  , then the construct is declared reliable. SmartPLS output results for composite reliability values can be shown in table 10.

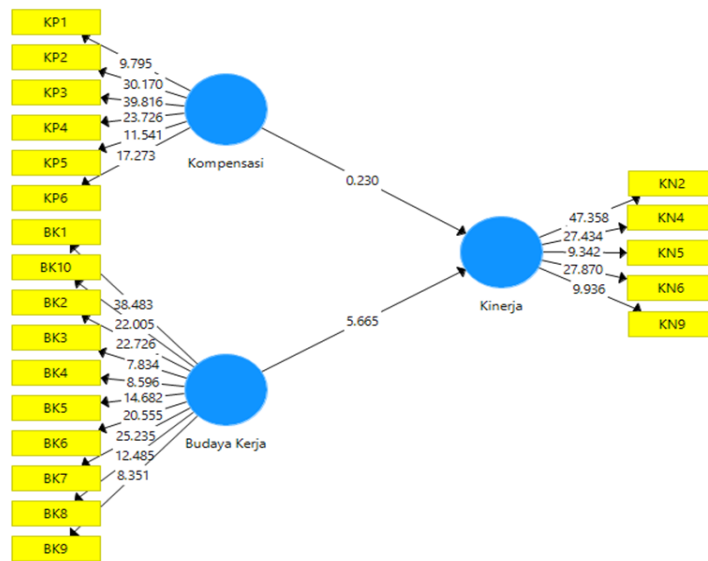


**Table 4.** Construct Reliability and Validity

Construct	Composite Reliability
Work Culture	0.953
Performance	0.918
Compensation	0.940

**4.2 Structural Model Testing**

Path Analysis in Structural Equation Modeling Partial Least Squares (SEM PLS) is a statistical method used to test the relationship between variables in a complex model. It is used to understand how variables influence each other in a conceptual model



**Figure 3.** Research Model Results

**Table 5.** Path Analysis

Influence of Variables	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Work Culture -> Performance	0.774	0.773	0.137	5,642	0,000
Compensation -> Performance	0.034	0.040	0.153	0.224	0.823

**Table 6.** Summary of Hypothesis Testing

Influence of Variables	T Statistics ( O/STDEV )	P Values	Results	Information
X2 → Y	5,642	0,000	Positive and Significant	H1 is accepted
X1 → Y	0.224	0.823	Positive and not significant	H2 is rejected

Source: Data processed: 2023

Table 6 shows that the compensation variable has no significant effect on outsourcing performance and it can be concluded that the first hypothesis, namely compensation has a positive and significant effect on outsourcing performance, cannot be accepted or rejected. Meanwhile, the variable that has a positive influence on outsourcing performance is the work culture variable, thus the second hypothesis, namely that work culture has a positive and significant influence on outsourcing performance, can be accepted.

### 4.3 Discussion

Studies that examine the effect of compensation (X1) on outsourcing performance (Y) with the finding that the effect is positive but not significant are an interesting problem in human resource management and relationships with outsourcing service providers. Research that supports these findings is research by Nugraha & Tjahjawati (2018) which found that compensation has no effect on employee performance at CV. XYZ in Cikarang. Apart from that, the results that do not support the findings of this research are the results of research which found that compensation had a positive and significant effect, namely research (Mulyapradana et al., 2020 ; Fauzan, 2022 , Sherlie & Hikmah, 2020) supports the idea that good and competitive compensation can motivate outsourcing service providers to provide better results. Employees who feel that they are given rewards commensurate with the work they do tend to be more motivated to do well.

Good compensation can help companies retain employees who are experienced and skilled in providing outsourcing services. This can improve the quality of services provided by the outsourcing provider. Outsourcing performance is influenced by factors other than compensation. For example, factors such as project management, technical skills, and effective communication can have a greater impact on outsourcer performance than compensation. Outsourced service providers often have varying levels of experience and qualifications. In this case, the same compensation may not affect all outsourcing providers in the same way, and this may result in an insignificant effect overall.

Factors such as good integration between the company and the outsourcing service provider, as well as effective project management, can be more important in determining outsourcing performance than compensation levels. Compensation may not overcome deficiencies in management or poor integration. The impact of compensation on outsourcing performance can also vary depending on the type of industry and the type of work performed by the outsourcing provider. In some industries or types of work, compensation may be more important, whereas in others, other factors such as technology or specific skills may be more dominant.

In interpreting these findings, it is important to understand that compensation is one factor that influences outsourcing performance, but not the only factor. Other factors , such as project management, integration, and the technical skills of the outsourced service provider, also play an important role in determining performance outcomes. Therefore, organizations need to consider various aspects in designing their compensation strategies and in managing relationships with outsourcing service providers to achieve desired results.

There are several possibilities that could be the reason why compensation does not have a significant effect on outsourcing performance in a study, namely; 1) dominating factors, 2) variability in experience and qualifications, 3) good integration, 4) variability in industry and type of work, 5) commitment that does not appear, 6) influence of external factors.

In any research, it is important to consider the various factors that may influence outcomes, and often, outsourcing performance is influenced by a combination of factors including compensation, management, integration, and industry context. Therefore, the insignificant results related to compensation may be due to the more dominant role of the other factors mentioned above in influencing outsourcing performance.

Studies that investigate the influence of work culture on outsourcing performance with the finding that the influence is positive and significant are an interesting topic in management and human resources science. In this context, “work culture” refers to the values, norms, and behaviors that define how workers work and interact within an organization, while “outsourcing performance” is the work output produced by an

outsourcing service provider or contractor when they carry out tasks or work that were previously carried out by internal company employees.

Previous research results that support the results of this research are research by Mukrimaa et al. (2016) that a strong and positive work culture in an organization can increase collaboration between companies and outsourcing service providers. When a good work culture is integrated with service providers, they tend to be more engaged and involved in the work, which in turn can improve outsourcing performance.

Research (Sanjaya, 2021 ; Sianturi et al., 2021 ; Anggelina et al., 2019; Sari et al., 2008 ; Fatimah & Frinaldi, 2020 ; Cahyadi, 2018) , that a positive work culture can influence outsourcing service providers to provide more accurate and quality results. A work culture that supports integrity, accountability and commitment to excellence can encourage service providers to provide better performance (Epi Parela & Woro, 2020) .

A good work culture can reduce potential conflicts between companies and outsourcing service providers (Pradana & Sutoro, 2022) . This is because a strong culture can provide a better understanding of shared expectations and values, which can reduce disagreements and conflicts that may arise (Muratin, 2022) .

Furthermore, research (Biongan et al., 2023 ; Syamsuri et al., 2021) refutes this finding that the influence of work culture on outsourcing performance may vary depending on the organizational context. The same culture may have different impacts in different companies or in different situations. Some external factors, such as changes in market conditions or changes in industry competition, can also influence outsourcing performance. In some cases, these factors are more dominant in influencing performance than work culture. The level of integration between the company and the outsourcing service provider can also play an important role in the influence of work culture on performance. If integration is low, the influence of work culture may be less significant.

A strong and positive work culture in an organization can significantly influence outsourcing performance in several ways. The following are several explanations why work culture has a significant influence on outsourcing performance, namely: 1) Directing Work Values and Ethic , 2) Inspiring Engagement , 3) Encouraging Collaboration , 4) Increased Accountability , 5) Better Understanding, 6) Management Better Conflict , 7) Employee Loyalty and Retention .

In interpreting the results of this study, it is important to consider the context and additional factors that may influence the relationship between work culture and outsourcing performance. Additionally, each organization should consider how they can leverage the findings of this research to improve collaboration with outsourcing service providers and optimize outsourcing performance according to their needs and goals.

## **V. Conclusion**

Based on the analysis and discussion, the findings from the research can be concluded that: 1) compensation has no significant effect on outsourcing performance, 2) work culture has a significant effect on outsourcing performance. Based on these conclusions, the variable that has the dominant influence is the work culture variable on outsourcing performance at PT. Yanka Aprilindo Makassar.

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