

# The Role of Work Competence and Compensation on Increasing Organizational Commitment

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## Abstract

The purpose of this study is to investigate the impact of job competence and compensation on organizational commitment. The major goal is to determine how much these two variables help to increase employee loyalty to the organization. This study used a quantitative technique, using multiple regression analysis, to investigate the relationship between the independent factors (job competence and compensation) and the dependent variable (organizational commitment). Data was gathered from 100 people working in diverse organizations. The analysis results demonstrate that salary has a significant influence on Organizational Commitment, with a coefficient value of 0.335 and a significance level of 0.000, indicating that a rise in employee salary enhances their commitment to the organization. In contrast, Job Competency has no significant relationship, with a coefficient value of 0.152 and a significance level of 0.117, demonstrating that increasing employees' job competency does not statistically boost their commitment to the firm. The regression model has a R Square of 0.321, indicating that the factors in the model can explain 32.1% of the variability in Organizational Commitment.

**Keywords:** Financial Reporting, Deferred Tax, Operating Cash Flow, Manufacturing Sector

## Introduction

In today's competitive business environment, the success of an organization is significantly influenced by the level of organizational commitment among its employees, which in turn can increase productivity, reduce turnover, and improve overall organizational performance. Several factors contribute to fostering this commitment. Work motivation is an important factor, as it directly impacts employee performance and organizational commitment, suggesting that companies should invest in training, career development, and policies that promote organizational commitment to improve performance (Rizkya Zahli, 2024). In addition, organizational culture plays a significant role; a supportive culture that aligns with employees' values and norms can significantly improve their commitment and performance (Nur Saebah, 2024).

The work environment and individual characteristics also contribute to organizational commitment, highlighting the importance of creating a conducive work environment and cultivating desirable traits among employees to increase their engagement and commitment (Alireza Azizi, 2024). In addition, organizational citizenship behavior, which can be influenced by organizational culture through commitment, is essential to reducing absenteeism and increasing employee retention (Ririn Ambarwati, 2024). Finally, a high level of organizational culture, characterized by mission, involvement, adaptability, and consistency, along with strong affective, normative, and continuance commitment, has been shown to have a positive impact on employee performance, as evidenced by the high levels of job satisfaction and performance among employees in LGU Tagum and Asuncion (Mecca Diane C. Rosal, 2024). Therefore, managers and researchers should focus on these factors of work motivation, organizational culture, work environment, and individual characteristics to foster organizational commitment and achieve sustainable organizational success.

The relationship between job competence and organizational commitment is well documented in the literature, highlighting its critical role in enhancing employee dedication and performance. Competence, which encompasses the skills, knowledge, and abilities required for effective job performance, significantly influences organizational commitment. Employees who perceive themselves as competent are more confident and tend to demonstrate higher levels of commitment to their organization. This is supported by research showing that competence positively influences career development, which in turn increases organizational commitment (Shinta Dewi Suprayitno, 2023).

Furthermore, organizational commitment is a multifaceted concept that encompasses various dimensions that influence the employee-organization relationship, and promoting it is critical for long-term success (Margarida Oliveira, 2024) [1]. Studies have shown that job satisfaction, work experience, work environment, and management team leadership are key variables that influence organizational commitment, with competence being an important component of both job satisfaction and experience (A. Chayomchai, 2023). In the government sector, a significant relationship between organizational commitment and employee performance has been observed, underscoring the importance of fostering commitment to improve efficiency and effectiveness (Marsudi Lestariningsih, 2024). Additionally, studies in manufacturing and service companies have shown that strengthening commitment leads to improved organizational performance, further emphasizing the importance of competence in this dynamic (Muhammad Dafi, 2023). Therefore, organizations should focus on developing their employees' competencies to enhance their self-confidence and commitment, ultimately

leading to better performance and sustainable growth. This comprehensive approach ensures that employees feel valued and capable, which is essential for maintaining a committed and high-performing workforce.

Compensation, including salary, benefits, and other incentives, is indeed an important factor in shaping employee commitment in an organization. Research consistently shows that fair and competitive compensation can significantly increase organizational commitment by attracting and retaining quality employees, as well as increasing their motivation and loyalty. For example, a study of Coperativa Cafè Timor found that better compensation was directly correlated with higher organizational commitment and work motivation, although compensation alone did not act as a moderating variable in this relationship (Matias Rosa da Conceição, 2023). Similarly, a study conducted at the Pesantren District Health Center in Kediri City revealed that employee engagement and compensation had a positive and significant impact on organizational commitment, indicating that improved compensation strategies can drive higher levels of commitment among employees (Fadilla Putri Sofia Hanjani, 2023). Furthermore, a study of employees at a property company in Tangerang highlighted that compensation, together with motivation, positively influenced employee performance, with organizational commitment serving as a mediating factor in this relationship (Dyna Fitria, 2023). In addition, the role of the work environment as a moderating variable is emphasized in other studies, which found that a supportive work environment strengthens the positive impact of compensation on organizational commitment (Bambang Priyono, 2023). Finally, the concept of Total Compensation, which includes non-financial elements such as supervisor support, career development, and work-life balance, has been shown to be very important in influencing job satisfaction and organizational commitment. Specifically, performance appraisals were found to positively influence organizational commitment, while pay satisfaction had no significant impact in this context (Francesc González Navarro, 2023). Collectively, these findings underscore the diverse nature of compensation and its critical role in fostering a committed and motivated workforce. Research by Luksanti et al. showed that both competence and organizational commitment significantly influenced the performance of village officials, although compensation did not show a direct impact on performance in their study (Nirmala Rahayu Luksanti, 2023). This suggests that while competence is important, the role of compensation may be more complex and context-dependent. Similarly, Iswahyuni et al. found that compensation positively affects job satisfaction, which in turn increases organizational commitment, although compensation does not directly affect organizational commitment

(Endah Iswahyuni, 2024). This implies that compensation can work indirectly through job satisfaction to increase commitment.

Furthermore, Sofyan and Iqbal's study highlighted that organizational commitment has a significant positive effect on job satisfaction, which can mediate the relationship between organizational commitment and turnover intention (Mohamad Sofyan, 2024). This underlines the importance of organizational commitment in retaining employees. In addition, Lestariningsih and Rismawati's research in the government sector showed a significant relationship between organizational commitment and employee performance, emphasizing the need for management to focus on strategies that strengthen commitment to improve efficiency and effectiveness (Marsudi Lestariningsih, 2024).

Finally, Li and Ani's study in a lean electronics manufacturing company showed that lean leadership significantly impacted job satisfaction through the mediating role of organizational commitment, further supporting the idea that organizational commitment is an important factor in improving job satisfaction and overall performance (Shaolong Li, 2024). Collectively, these studies suggest that enhancing job competency and optimizing compensation can be effective strategies to enhance organizational commitment, although the pathway may involve mediating factors such as job satisfaction. These insights can guide management practitioners in designing comprehensive strategies that focus not only on direct incentives but also on enhancing job satisfaction and competency to cultivate a committed workforce.

## Literature Review

Organizational commitment, as defined by Mowday, Steers, and Porter (1979), is the strength of an individual's identification and involvement with their organization. This concept has been studied extensively due to its significant impact on various organizational outcomes. High levels of organizational commitment are associated with many benefits, including increased job satisfaction, decreased turnover rates, and improved overall performance (Margarida Oliveira, 2024). Research suggests that several factors influence organizational commitment, such as job stress, work-family conflict, work ethic, job satisfaction, work experience, work environment, and leadership quality (Ariel A. Alamban, 2024).

For example, a study involving prison personnel in the Philippines found that job stress and work ethic significantly affected organizational commitment, while work-family conflict had no significant correlation (Ariel A. Alamban, 2024). Similarly, other studies highlight that job satisfaction, work experience, work environment, and management team leadership are

essential in fostering organizational commitment, which in turn leads to lower turnover rates and higher employee retention (A. Chayomchai, 2023).

In addition, a case study in Malhada de Pedras-BA showed high levels of commitment among employees, suggesting that organizational commitment can serve as a valuable parameter for human resource policies (Amélia Guimarães Misquita, 2024). The complexity and multidimensionality of organizational commitment require organizations to actively promote it to ensure long-term success and sustainability (Margarida Oliveira, 2024). Furthermore, resistance to organizational change, often influenced by communication procedures and employee skills, can impact organizational commitment, highlighting the need for effective change management strategies to maintain high levels of commitment (Rolando Pena-Sanchez, 2023). Overall, fostering organizational commitment is essential to achieving organizational goals, increasing employee satisfaction, and ensuring sustainable growth (Amélia Guimarães Misquita, 2024).

### **Job Competence**

Job competence, which includes the abilities, skills, and knowledge required for effective task performance, is an important factor in improving employee performance and organizational commitment. Research underscores the importance of aligning individual competencies with organizational goals to drive performance and competitive advantage (Dr.P. SHALINI, 2024). Competence, which includes elements such as knowledge, skills, and attitudes, has been shown to significantly improve employee performance, suggesting that training and development initiatives can improve these competencies and, consequently, performance (Iva Riyanti, 2023). While organizational commitment has a strong impact on performance, the relationship between competence and performance, although positive, may not always be significant in all contexts, such as in the Surabaya City Government Administration Bureau (Marsudi Lestariningsih, 2024).

However, competence positively influences career development and organizational commitment, as evidenced by a study of non-civil servant education personnel, where competence was found to improve career development and, in turn, organizational commitment (Shinta Dewi Suprayitno, 2023). In addition, competent employees are more productive, innovative, and adaptable, leading to better work quality, increased customer satisfaction, and increased profitability, underscoring the importance of cultivating employee competence and positive attitudes in the workplace (Benny Hidayat, 2019). Therefore, organizations should prioritize competence through targeted training, career advancement opportunities, and a

supportive work culture to enhance employee performance and organizational commitment, in line with the findings of Boyatzis (1982), Spencer and Spencer (1993), and Joo and Lim (2009) on the positive relationship between job competence and affective commitment.

### **Compensation**

Compensation is an essential component of human resource management, encompassing salary, benefits, bonuses, and other incentives, and plays a vital role in enhancing employee motivation and commitment. A competitive and fair compensation system is essential to ensure that employees feel valued and fairly rewarded for their contributions, which in turn increases their motivation and performance levels (Mifthakhul Fauzi Minarso, 2023). Research shows that compensation significantly influences organizational commitment, with better compensation packages leading to higher levels of commitment among employees (Matias Rosa da Conceição, 2023). This is because employees are more likely to remain loyal to an organization that properly recognizes and rewards their efforts. Additionally, a compensation system that is aligned with industry standards provides employees with the assurance that they are being paid fairly, which is essential for maintaining high morale and productivity (M.U. Siddiqui, 2023).

In addition, compensation not only directly impacts employee performance but also indirectly influences it through organizational commitment. Research has shown that motivation and compensation positively affect employee performance, and this relationship is often mediated by organizational commitment (Dyna Fitria, 2023). For example, in the case of CV. Geo Karya Pratama, a well-structured and diverse compensation system, including basic salary, health benefits, attendance allowances, and meal allowances, has led to increased employee satisfaction, motivation, and performance (Jurnal Ilmiah Global Education, 2023). Therefore, designing a competitive and fair compensation system is essential for any organization that aims to improve employee motivation, commitment, and overall performance. This comprehensive approach to compensation management ensures that employees are not only motivated to perform well but also remain committed to the organization, thus contributing to its long-term success (Dyna Fitria, 2023).

### **Relationship Between Job Competence, Compensation, and Organizational Commitment**

Research by Yuliana, Rahmawati, and Wismar'ain (Rika Yuliana, 2024) revealed that organizational culture and compensation positively affect job satisfaction, which in turn increases organizational commitment. Likewise, Soelistya's study (Djoko Soelistya, 2024)

emphasized the direct impact of transformational leadership and compensation on organizational commitment, which then affects teacher performance. Iswahyuni, Astuti, Pangaribuan, and Noer (Endah Iswahyuni, 2023) found that compensation and career development positively affect job satisfaction, which mediates the relationship with organizational commitment. In addition, Hermansyah, Affandi, and Hermawan (Taufik Hermansyah, 2024) highlighted the significant influence of competence, work motivation, leadership, and compensation on affective commitment, which ultimately impacts performance. Lestariningsih and Rismawati (Marsudi Lestariningsih, 2024) further support the importance of organizational commitment in improving employee performance, emphasizing a significant relationship. These studies collectively underline the important role of job competence, compensation, and organizational commitment in driving employee dedication and performance.

Various studies underline the importance of employee competence and fair compensation in enhancing organizational commitment. Studies by Agrasen (Aradhya Agrasen, 2024), Hapsari (Betari Hapsari, 2023), and Hanjani (Fadilla Putri Sofia Hanjani, 2023), all highlight the positive impact of competence and compensation on employee commitment. Agrasen's study emphasizes the relationship between employee competence, organizational culture, and compensation strategy, while Hapsari's study reveals a positive correlation between competence, fair compensation, and high motivation with employee performance. In addition, Hanjani et al. found a significant effect of employee engagement and compensation on organizational commitment. These findings collectively support the idea that enhancing job competencies and managing compensation effectively are important strategies in fostering stronger organizational commitment, consistent with the findings of Nazir, Shah, and Zaman 2012.

## **Methods**

Research on organizational commitment highlights the significant impact of various factors such as job competence, compensation, organizational justice, and work motivation (L. Rahayu, 2024) and (Adik Ar Arief Rachman, 2023). Job competence, reflected in factors such as work experience and management team leadership, plays a significant role in fostering organizational commitment by ensuring employees feel competent and valued in their roles (A. Chayomchai, 2023). The study population covering employees from various industries in the region was met effectively.

## Results and Discussion

### Validity Test & Reliability Test

#### Table Validity Test

##### Correlations

Variable	Sig. (2-tailed)
Job Competence	0,000
Compensation	0,000
Organizational Commitment	0,000

\*\* . Correlation is significant at the 0.01 level (2-tailed).

#### Interpretation

Based on the results of Spss data processing, it was shown that all variables in this study have a significance value of  $0.000 > 0.005$ , thus it can be stated that all variables in this study are valid.

#### Table Reliability test

##### Reliability Statistics

Cronbach's Alpha	N of Items
,778	3

#### Interpretation

Based on the statistical test data, it was shown that the Cronbach`s Alpha value of all variables in this study was  $0.778 > 0.700$ , thus in accordance with the principle that if the Cronbach`s alpha value is above 0.700, then all variables are reliable and the study can be continued.



## F Test and T Test

### F Test Table

#### ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94,385	2	47,193	22,966	,000 <sup>b</sup>
	Residual	199,325	97	2,055		
	Total	293,710	99			

a. Dependent Variable: Organizational Commitment

b. Predictors: (Constant), Compensation, Job Competence

Interpretation of the F value of 22.966 with a significance level (p-value) of 0.000 indicates that the regression model involving predictor variables (Compensation and Work Competence) is statistically significant at a significance level of 0.05 (5%).

### T-Test Table

#### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,387	,880		4,985	,000
	Job Competence	,152	,096	,170	1,583	,117
	Compensation	,335	,081	,445	4,157	,000

a. Dependent Variable: Organizational Commitment

Interpretation:

The t-value of 4.985 with a significance level (Sig.) of 0.000 indicates that this constant is statistically significant. The t-value for Job Competence is 1.583, with a significance value (Sig.) of 0.117. The t-value for Compensation is 4.157, with a significance value (Sig.) of 0.000. In this study, the Compensation variable shows a significant effect on Organizational Commitment, while Job Competence does not show a significant effect. This means that

improvements in compensation given to employees are likely to increase their commitment to the organization.

### Analysis of Determinant Coefficient

**Table of Analysis of Determinant Coefficient**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,567 <sup>a</sup>	,321	,307	1,433

a. Predictors: (Constant), Kompesasi, Kompetensi Kerja

Interpretation:

The R Square value of 0.321 indicates that approximately 32.1% of the variation in Organizational Commitment can be explained by a model that includes Compensation and Job Competence. In other words, these two variables contribute approximately 32.1% to changes in the level of organizational commitment.

### Conclusion

The results of the regression analysis show that changes in tax regulations, especially tax rates and deferred tax policies, have a significant impact on the elements of financial reporting of manufacturing companies in Indonesia. A decrease in tax rates tends to increase net income and deferred taxes, but decreases tax expenses and operating cash flows. Conversely, changes in deferred tax policies are positively related to an increase in net income, deferred taxes, and operating cash flows, but do not significantly affect tax expenses. These findings underscore the importance of understanding the impact of changes in tax regulations on financial reporting for corporate management and policy makers. Further research can be conducted to explore other factors that may influence this relationship.

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