



The Effect of Compensation and Work Environment on Employee Loyalty through Job Satisfaction as a Mediator at the Regional Revenue Management Agency of West Nusa Tenggara

Alga Doni Saputra¹; Mukmin Suryatni²; Sri Wahyulina²

¹ Master of Management, Faculty of Economics and Business, University of Mataram, Indonesia

² Department of Management, Faculty of Economics and Business, University of Mataram, Indonesia

<http://dx.doi.org/10.18415/ijmmu.v11i10.6125>

Abstract

This study aims to examine the impact of compensation and work environment on employee loyalty, with job satisfaction as a mediating variable. The research method employed is quantitative associative with a causal approach. The population of the study consists of civil servants (PNS) at the Regional Revenue Management Agency (BAPPENDA) of West Nusa Tenggara Province (NTB). The respondents include 92 active employees of BAPPENDA, and the study uses a census method. Data collection was conducted using questionnaires distributed via Google Forms, with responses measured on a Likert scale ranging from "strongly disagree" to "strongly agree." Data analysis was performed using the Structural Equation Model (SEM) processed with Smart-PLS version 3.0. The findings of this research conclude that compensation and work environment positively effect job satisfaction, and job satisfaction significantly effects employee loyalty. Additionally, job satisfaction acts as a significant mediator between compensation, work environment, and employee loyalty. However, compensation has a positive but not significant effect on employee loyalty.

Keywords: *Compensation; Work Environment; Job Satisfaction; And Employee Loyalty*

Introduction

One effective approach to addressing personnel issues within an organization is through Human Resource Management (HRM). As Dessler (2015) explains, HRM encompasses various elements that work in tandem to enhance organizational efficiency and productivity through optimal management of human resources. One of the primary focuses of HRM is to increase employee loyalty, which is crucial for maintaining organizational stability and productivity. According to Kahn (1990), employee engagement occurs when individuals feel motivated, committed, and emotionally connected to their work. Such conditions foster loyalty as employees feel valued for their contributions to the organization.

According to Greenberg (1987), employees' perceptions of fairness in interpersonal interactions, reward distribution, and procedures significantly impact their loyalty. Employees who feel they are

treated fairly tend to demonstrate higher loyalty because they believe their work is appropriately valued by the company. Employee loyalty is characterized by strong dedication and commitment to their organization, which can enhance productivity and work quality (Meyer & Allen, 1991). Robbins (2017) identifies several factors that influence employee loyalty, including job satisfaction, fair compensation, effective communication, leadership style, a comfortable work environment, career development and training, and the organization's responsibility to support its employees. This study aims to further explore how compensation, work environment, and job satisfaction affect employee loyalty.

According to Vroom (1964), employees are more likely to remain loyal if they feel that the compensation they receive is commensurate with their efforts and contributions. Compensation refers to both financial and non-financial rewards given to employees in exchange for their performance and contributions. Meanwhile, Okasheh and AL-Omari (2017) state that the work environment encompasses everything surrounding employees that can affect their work processes. Marnis and Priyono (2008) define job satisfaction as the emotional feeling that one enjoys and loves their job.

Research conducted by Febriana and Kustini (2022) and Purnamasari and Sintaasih (2019) indicates that compensation has a positive and significant effect on employee loyalty. Additionally, studies by Putra and Sriathi (2019) and Giovanni and Ie (2022) demonstrate that the work environment positively and significantly effect employee loyalty. Furthermore, research by Selvia and Karneli (2023) and Pratama, Suryoko, and Widiartanto (2015) shows that job satisfaction positively and significantly impacts employee loyalty and can serve as a mediating factor in their findings.

This research will be conducted at the Regional Revenue Management Agency (BAPPENDA) of West Nusa Tenggara Province (NTB). The study aims to examine the influence of compensation, work environment, and job satisfaction on employee loyalty at BAPPENDA, with job satisfaction serving as a mediating variable. BAPPENDA itself consists of several divisions, including the Secretariat Division, Retribution Division, Regional Tax Division, Control and Supervision Division, and Planning and Development Division.

The phenomenon observed in this study regarding employee loyalty at BAPPENDA NTB Province indicates that loyalty is influenced by adherence to regulations, attendance rates, compensation, work environment, and job satisfaction. According to observational data, the attendance rate of BAPPENDA employees over the past eight months in 2023 was 73.29%, which is below the standard attendance rate of 95%. This highlights the need for further evaluation of factors affecting employee loyalty. Moreover, compensation at BAPPENDA is regulated by the Governor's Regulation of West Nusa Tenggara Number 6 of 2015, which includes performance allowances, basic salary, position allowances, incentives, and other benefits. The work environment at BAPPENDA involves the availability of adequate facilities, while job satisfaction is influenced by the alignment of job roles with employee capabilities and the availability of promotion or career advancement programs.

The selection of BAPPENDA NTB as the research location is also based on the distinct context between government institutions and private companies. While previous studies have predominantly focused on employee loyalty in the private sector, this research aims to fill a gap in the literature by examining factors that influence employee loyalty in the public sector. Employee loyalty in government institutions has unique dynamics due to the bureaucratic structure, various human resource management policies, and the emphasis on public service.

Therefore, this study will not only provide additional insights into employee loyalty at BAPPENDA NTB but also offer practical benefits for human resource management in the public sector, particularly in understanding and managing employee loyalty in government agencies. The study aims to further explore the impact of compensation, work environment, and job satisfaction on employee loyalty at BAPPENDA in West Nusa Tenggara Province. It is hoped that the findings of this research will offer valuable insights for better human resource management practices to enhance employee loyalty.

Literature Review

Employee Loyalty

Loyalty is a positive and faithful attitude directed towards both personal and organizational interests. Loyalty can also be referred to as commitment. According to Robbins (2017), organizational commitment is the employees' dedication to the organization in achieving its goals and expectations while remaining a part of the organization. In other words, commitment is the employees' loyalty to the organization, signifying their desire to continue being part of it.

Compensation

Dessler (2015) also stated that compensation encompasses all forms of payment or rewards given to employees as a result of their employment. This implies that compensation is a form of remuneration provided by the company (organization) to its employees for fulfilling their duties. This compensation can be either financial or non-financial in nature.

Work Environment

According to Sedarmayanti (2003), a good or appropriate work environment is one in which individuals can perform their tasks in an optimal, healthy, safe, and comfortable manner. The consequences of an inadequate work environment may become evident over time. Furthermore, a poor work environment can demand more labor and time and fail to facilitate the design of an effective work system.

Job Satisfaction

Robbins (2017) defines job satisfaction as the overall attitude a person has towards their job. Several factors influence job satisfaction, such as the nature of the work itself, compensation, opportunities for promotion, relationships with coworkers, and general working conditions. Employees are more likely to be satisfied with their jobs when these elements or indicators of satisfaction meet their expectations and needs, and vice versa.

Hypothesis

Based on the above explanations, the researcher formulates the following hypotheses:

H1: There is a positive and significant effect of compensation on employee loyalty.

H2: There is a positive and significant effect of the work environment on employee loyalty.

H3: There is a positive and significant effect of compensation on job satisfaction.

H4: There is a positive and significant effect of the work environment on job satisfaction.

H5: There is a positive and significant effect of job satisfaction on employee loyalty.

H6: Job satisfaction mediates the positive and significant effect of compensation on employee loyalty.

H7: Job satisfaction mediates the positive and significant effect of the work environment on employee loyalty.

Conceptual Framework

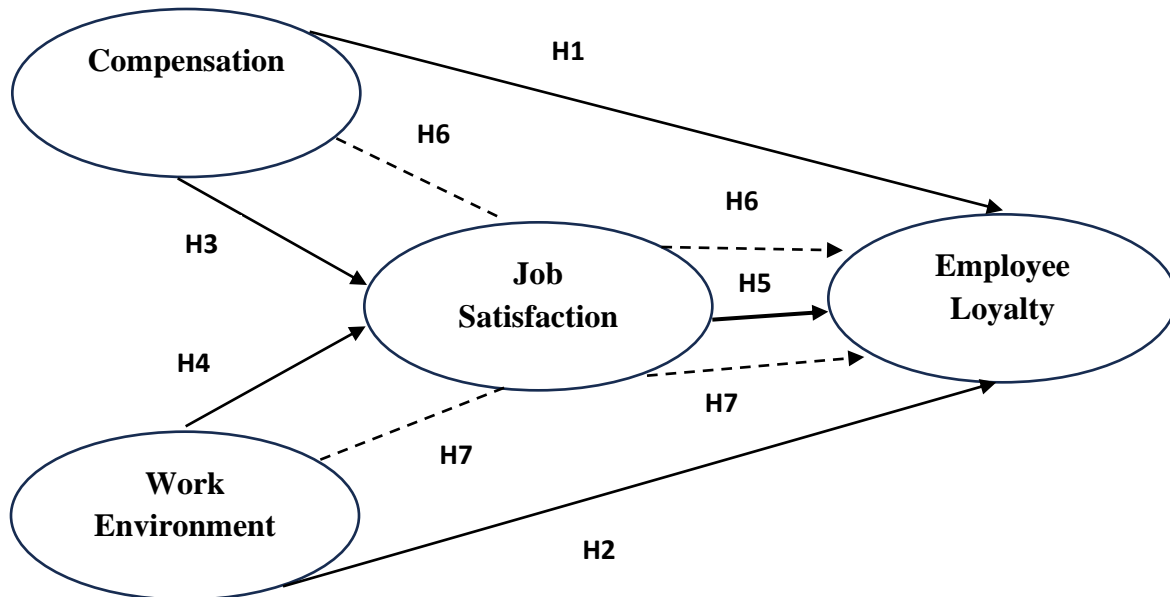


Figure 1. Conceptual Framework

Research Methodology

This study employs a quantitative method. Due to its explanatory level, this research falls into the category of associative research. Sugiyono (2016) describes the relationship as cause and effect. The data collection method used in this study is a census, where the entire population of 92 respondents is included. This population consists of 34 people from the Secretariat Division, 13 from the Retribution Division, 16 from the Regional Tax Division, 15 from the Control and Supervision Division, and 14 from the Planning and Development Division. The respondents in this study refer to all active Civil Servants (PNS) working at BAPPENDA in NTB Province.

The data collection techniques used are questionnaires, observation, and documentation. Data collection tools include observation, questionnaires, and documentation, with questionnaires distributed via Google Forms. The analysis tool employed will be SEM-PLS, processed using Smart-PLS version 3.0. Majority of respondents in the study from 92 respondents, were dominated by women as many as 48 people. The highest age range is 41-50 years as many as 38 people with an average work period of 11-15 years.

Result and Discussion

Outer Model Analysis

Table 1. Average variance extracted (AVE)

<i>Average variance extracted (AVE)</i>			
Latent Variables	Criteria	AVE value	Description
Compensation (X1)	>0,05	0,618	Meets Convergent Validity
Work Environment (X2)	>0,05	0,639	Meets Convergent Validity
Employee Loyalty (Y)	>0,05	0,701	Meets Convergent Validity
Job Satisfaction (Z)	>0,05	0,605	Meets Convergent Validity

Based on the table above, it can be seen that the Average Variance Extracted (AVE) values are above the criteria of > 0.50 , indicating that the AVE values meet the standard and are considered valid. Additionally, the Outer Loading values obtained are within the valid category, with values > 0.70 .

Table 2. Composite Reliability Values

Variable	Cronbach's Alpha	Composite Reliability	Rule of Thumb	Evaluasi Model
Compensation (X1)	0,931	0,942	$> 0,70$	Reliabel
Work Environment (X2)	0,906	0,925		Reliabel
Employee Loyalty (Y)	0,969	0,972		Reliabel
Job Satisfaction (Z)	0,940	0,948		Reliabel

Based on the table above, it is shown that the constructs for all variables meet the reliability criteria. This is indicated by the Cronbach's Alpha and Composite Reliability values obtained from the SmartPLS estimation, which are both greater than 0.70.

Inner Model Analysis

Table 3. R Square Results

Variable	R Square	R Square Adjusted
Y	0,622	0,579
Z	0,759	0,741

Based on the table above, the R-Square value for employee loyalty is 0.622. This result indicates that the constructs of compensation, work environment, and job satisfaction explain 62.2% of the variance in employee loyalty, while the remaining 37.8% is influenced by other factors not included in this study.

Meanwhile, the R-Square value of 0.759 shows that compensation and work environment explain 75.9% of the variance in job satisfaction (as a mediating variable), with the remaining 24.1% influenced by other factors not examined in this research. The R-Square value of 62.2% falls into the moderate category.

Hypothesis Test Results

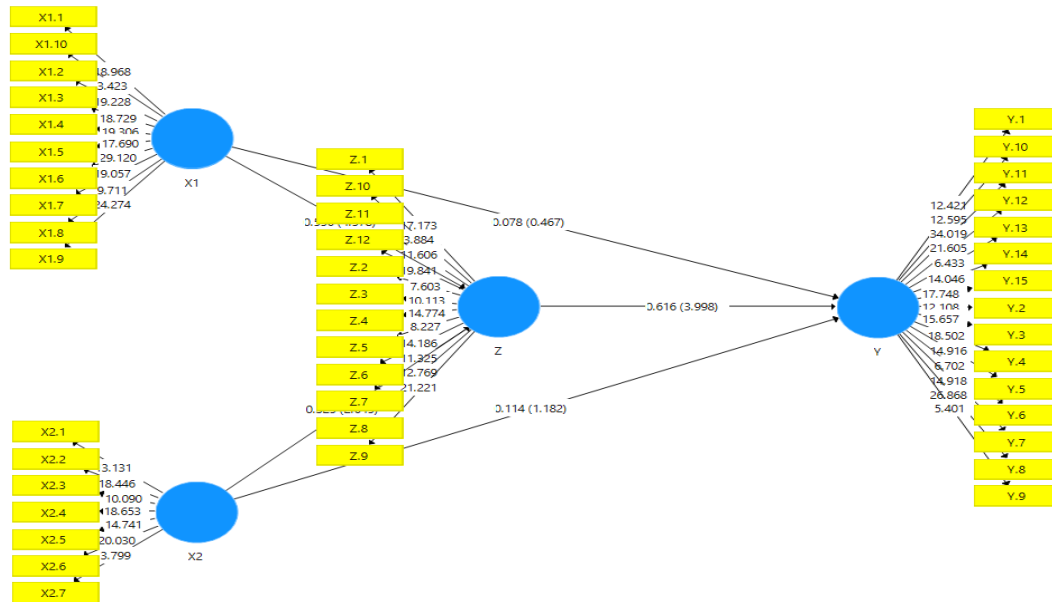


Figure 2. Image of Path Coefficient Bootstrapping Original Sample and T-Statistics

Table 3. Results of Hypothesis Path Coefficients

Hypothesis	Influence between variables	Original Sample	T Statistics	P Values	Description
H1	Compensation -> Employee Loyalty	0,078	0,467	0,630	(+) not significant
H2	Work Environment -> Employee Loyalty	0,114	1,182	0,257	(+) not significant
H3	Compensation -> Job Satisfaction	0,556	4,578	0,000	(+) significant
H4	Work Environment -> Job Satisfaction	0,325	2,645	0,007	(+) significant
H5	Job Satisfaction -> Employee Loyalty	0,616	3,998	0,000	(+) significant
H6	Compensation -> Job Satisfaction -> Employee Loyalty	0,343	3,280	0,001	(+) significant
H7	Work Environment -> Job Satisfaction -> Employee Loyalty	0,200	2,055	0,033	(+) significant

Discussion

The Effect of Compensation on Employee Loyalty

The results of this study, as seen in Table 3, show that the original sample value is positive at 0.078, with a t-statistic of 0.467, which is less than the critical t-value of 1.96, and a p-value of 0.630,

which is greater than the significance threshold of 0.05. Therefore, it can be concluded that compensation has a positive but not significant effect on employee loyalty.

These findings suggest that the bonuses provided to employees at BAPPENDA are still perceived as insufficient. This is based on responses indicating that the average satisfaction with the received bonuses is lower than expected. Consequently, BAPPENDA leadership may need to evaluate or revise the regulations on bonus distribution to better align with the duties and responsibilities assigned, ultimately improving employee loyalty. This aligns with the understanding that compensation is a crucial element that motivates employees to perform their work; equitable compensation can encourage employees to enhance their performance and loyalty to the organization (Armanu & Sudjatno, 2017).

Similar findings are also reported by Rizal et al. (2014), who stated that compensation has a positive but not significant effect on employee loyalty. Therefore, it can be concluded that as compensation becomes more aligned with employee expectations, it can contribute to an increased sense of loyalty among employees.

The Effect of the Work Environment on Employee Loyalty

The results of this study, as seen in Table 3, show that the original sample value is positive at 0.114, with a t-statistic of 1.182, which is less than the critical t-value of 1.96, and a p-value of 0.257, which is greater than the significance threshold of 0.05. Therefore, it can be concluded that the work environment has a positive but not significant effect on employee loyalty.

The findings from this study indicate that the work environment does not always significantly contribute to building high employee loyalty within the organization, including at BAPPENDA. Many respondents expressed feeling less loyal, primarily due to differences of opinion among employees. These differences often hinder effective communication, both between employees and between employees and supervisors. According to Andrews (2013), a good work environment makes workers feel comfortable performing their daily tasks. Since employees spend a considerable amount of time at their workplace, any issues within the work environment can negatively impact their emotional well-being.

This study's findings are also supported by Insani and Frianto (2023), who found that the work environment does not have a significant impact on employee loyalty. Thus, while an improved work environment may enhance an employee's sense of loyalty, it does not always lead to a significant increase in loyalty within an organization.

The Effect of Compensation on Job Satisfaction

The results of this study, as seen in Table 3, show that the original sample value is positive at 0.556, with a t-statistic of 4.578, which is greater than the critical t-value of 1.96, and a p-value of 0.000, which is less than the significance threshold of 0.05. Therefore, it can be concluded that compensation has a positive and significant effect on job satisfaction.

The findings indicate that the compensation provided is perceived as appropriate. Most respondents expressed satisfaction with their work environment and the benefits they receive. Additionally, higher compensation motivates employees to optimize their abilities, which in turn increases job satisfaction. This is reflected in respondents' statements that they feel supported by adequate facilities, enabling them to work efficiently and productively. According to Ramadhani (2019), salary, bonuses, allowances, and incentives, as components of compensation, can influence job satisfaction. When compensation aligns with employee expectations, job satisfaction tends to increase alongside it.

Supporting evidence for this study can be found in previous research by Pratama, Suryoko, & Widiartanto (2015), which showed that compensation contributed the most to job satisfaction, accounting

for 51.1%. This demonstrates that compensation significantly impacts employee loyalty, reinforcing that when compensation is appropriate, job satisfaction also increases.

The Effect of the Work Environment on Job Satisfaction

The results of this study, as shown in Table 3, indicate that the original sample value is positive at 0.325, with a t-statistic of 2.645, which is greater than the critical t-value of 1.96, and a p-value of 0.007, which is below the significance threshold of 0.05. Therefore, it can be concluded that the work environment has a positive and significant effect on job satisfaction.

The findings suggest that the work environment at BAPPENDA is generally favorable. Most respondents expressed satisfaction with the availability of office facilities and the policies that are implemented. Moreover, a conducive work environment encourages employees to optimize their abilities, which in turn increases their job satisfaction. This improvement in job satisfaction is reflected in respondents' statements, indicating that adequate facilities support their work, allowing them to work efficiently and productively. Parveen et al. (2012) found that environmental factors play a crucial role in job satisfaction. These factors include income levels, promotions, appraisal systems, management climate, and relationships with colleagues. Recognizing the importance of these factors is essential to enhancing job satisfaction levels.

This study's findings align with previous research by Yuliantini & Santoso (2020), which showed that the analysis using Partial Least Square (PLS) demonstrated that the work environment, work motivation, and work discipline positively and significantly affect job satisfaction. In other words, the better the work environment perceived by employees, the more favorable their job satisfaction will be.

The Effect of Job Satisfaction on Employee Loyalty

The results of this study, as presented in Table 3, indicate that the original sample value is positive at 0.616, with a t-statistic of 3.998, which is greater than the critical t-value of 1.96, and a p-value of 0.000, which is below the significance threshold of 0.05. Thus, it can be concluded that job satisfaction has a positive and significant effect on employee loyalty.

The findings reveal that job satisfaction is categorized as satisfactory. Most respondents expressed contentment with the work environment and comfort provided. Moreover, high job satisfaction motivates employees to continuously optimize their abilities, which in turn enhances loyalty. This increase in employee loyalty is reflected in respondents' statements, such as, "I always strive to complete every task on time." Employees who are satisfied with their jobs tend to be more loyal to the organization and exhibit better behavior. This aligns with Herzberg's (1966) two-factor theory, which suggests that motivators like recognition and rewards increase satisfaction and loyalty. Additionally, Meyer and Allen (1991) found that job satisfaction positively correlates with affective commitment and loyalty.

These findings are consistent with previous research by Saptarini & Yudhaningsih (2020), which concluded that job satisfaction has a positive and significant influence on employee loyalty. Similarly, Rachman, Suryatni, & Suparman (2023) explored the relationship between job satisfaction and commitment, showing that job satisfaction positively and significantly impacts commitment. Thus, the higher the level of employee satisfaction, the greater their loyalty to the organization.

The Mediating Role of Job Satisfaction in the Effect of Compensation on Employee Loyalty

The results of this study, as shown in Table 3, indicate that the original sample value is positive at 0.343, with a t-statistic of 3.280, which exceeds the critical t-value of 1.96, and a p-value of 0.001, which is below the significance threshold of 0.05. This confirms that job satisfaction positively and significantly mediates the effect of compensation on employee loyalty.

The study's findings suggest that compensation, particularly regarding benefits and bonuses that meet expectations, along with proportional responsibilities relative to employees' capabilities, can enhance employee satisfaction. Job satisfaction, in this context, serves as a mediating variable. As employees' satisfaction with the fulfillment of their individual needs through appropriate compensation and responsibilities increases, their likelihood of remaining loyal to the organization also grows. In other words, when compensation aligns with employees' expectations, it boosts job satisfaction, which in turn strengthens their loyalty to the organization.

This aligns with Adams' (1963) equity theory, which posits that employees feel satisfied when they receive compensation that corresponds to their contributions. Additionally, Robbins and Judge (2017) emphasize that adequate compensation is crucial for fostering employee loyalty or commitment.

The findings of this study are consistent with previous research by Ambarak & Husein (2023), which demonstrated that job satisfaction mediates the effect of compensation on employee loyalty at PT. Tosari Utama. Similarly, Karlita, Surati, & Suryatni (2020) also identified job satisfaction as a mediator, with the mediation role significantly impacting their study's outcomes.

The Mediating Role of Job Satisfaction in the Effect of the Work Environment on Employee Loyalty

The results of this study, as shown in Table 3, indicate that the original sample value is positive at 0.200, with a t-statistic of 2.055, which exceeds the critical t-value of 1.96, and a p-value of 0.033, which is below the significance threshold of 0.05. This confirms that job satisfaction positively and significantly mediates the effect of the work environment on employee loyalty.

The findings suggest that dimensions of the work environment, particularly the availability of facilities and support from both leadership and colleagues, can significantly enhance employee satisfaction. When employees feel that their needs are adequately met within the organization's structure, this satisfaction translates into greater loyalty toward the institution. A conducive work environment, encompassing both physical elements like a comfortable workspace and social elements like positive relationships with colleagues, plays a critical role in job satisfaction. Moos (1987) highlighted that interactions between employees and their physical and social environments can lead to a more positive work experience. Robbins and Judge (2017) also stated that pleasant working conditions can improve employee satisfaction.

These findings are supported by previous research, such as Susiarty, Suparman, & Suryatni (2019), which identified non-physical environmental factors, including lighting, noise, temperature, and air quality, as key influencers. Moreover, Yuliyanti et al. (2020) found that career development and work environment significantly and positively affect job satisfaction and employee loyalty, with job satisfaction serving as an intervening variable that mediates the impact of career development and work environment on employee loyalty.

Conclusion

Based on the research conducted at BAPPENDA of Nusa Tenggara Barat (NTB) with all civil servants as respondents, the following conclusions can be drawn:

1. Compensation has a positive but not significant effect on employee loyalty at BAPPENDA.
2. The work environment has a positive but not significant effect on employee loyalty at BAPPENDA.
3. Compensation has a positive and significant effect on employee job satisfaction at BAPPENDA.
4. The work environment has a positive and significant effect on employee job satisfaction at BAPPENDA.

5. Job satisfaction has a positive and significant effect on employee loyalty at BAPPENDA.
6. Job satisfaction serves as a significant positive mediator in the relationship between compensation and employee loyalty at BAPPENDA.
7. Job satisfaction serves as a significant positive mediator in the relationship between the work environment and employee loyalty at BAPPENDA.

Suggestions

Based on the managerial implications found in this study, several recommendations can be made for future research:

1. **Development of a More Comprehensive Employee Loyalty Model:** Future research could focus on developing a more comprehensive model of employee loyalty by incorporating additional factors that might influence loyalty, such as organizational culture, work-life balance, career development programs, and demographic factors like age and tenure. Including these factors could provide a more holistic understanding of how various organizational elements contribute to employee loyalty.
2. **Comparative Study Between Government and Private Sectors:** Given the primary focus of this study on government institutions, future research could conduct comparative studies between employee loyalty in government agencies and private companies. This would offer deeper insights into the differences or similarities in factors affecting employee loyalty across both sectors and provide a perspective on best practices that can be adopted from each sector.
3. **Longitudinal Approach to Measure Loyalty:** Since employee loyalty can change over time, it is advisable to use a longitudinal approach in future studies. Measuring employee loyalty over an extended period can provide deeper insights into how changes in compensation, work environment, and job satisfaction impact employee loyalty in a sustained manner.
4. **Development of Specific Interventions to Enhance Job Satisfaction and Loyalty:** Future research could focus on developing and testing specific interventions designed to improve job satisfaction and employee loyalty. For instance, studies could explore the effectiveness of performance-based reward programs, enhancements to workplace facilities, or leadership training in boosting employee loyalty.
5. **Analysis of Leadership's Impact on Employee Loyalty:** Given the results indicating the importance of leadership in creating a supportive work environment, further research could explore the impact of different leadership styles on employee loyalty. Examining various leadership styles, such as transformational or supportive leadership, could provide more specific guidance for managers seeking to enhance employee loyalty.

These suggestions aim to enrich the understanding of employee loyalty in the public sector and contribute to the development of more effective human resource management policies.

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