



RESEARCH ARTICLE

# Identifying the Impact of Work Experience and Compensation on Employee Performance

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## Abstract

This study aims to examine the impact of work experience and compensation on employee performance in state-owned enterprises (SOEs). A quantitative approach with regression analysis was employed, involving 110 respondents selected using a purposive sampling technique. Respondents were SOE employees with at least five years of service, who provided data through questionnaires. Data analysis was conducted using Structural Equation Modeling-Partial Least Squares (SEM-PLS). The findings indicate that both work experience and compensation significantly affect employee performance. These results can serve as a reference for management to identify key factors influencing employee performance, supporting the achievement of organizational goals.

## Keywords

Work Experience; Compensation; Employee Performance; BUMN.

## 1 | INTRODUCTION

Organizations that successfully manage and develop their human resources are more likely to stay competitive and thrive in the long term. Achieving organizational goals is highly dependent on the performance of employees, which is crucial for overall success. Employee performance refers to the actions and efforts individuals put into completing the tasks assigned to them by their employer. Companies always expect their employees to perform well, as high-performing individuals contribute significantly to achieving company objectives. The performance of employees directly influences the overall performance of the organization, as it impacts how effectively goals are met.

Several factors influence employee performance, both internal and external. Internal factors include an individual's skills, motivation, and work experience, while external factors might involve the work environment, company culture, and the compensation provided. Among these, work experience is an important determinant in improving employee performance. Work experience can be defined as the duration an individual has spent in a particular job, which plays a crucial role in enhancing their ability to understand and execute the tasks associated with that position. According to Marwansyah, work experience encompasses the knowledge, skills, and capabilities gained through previous job roles, which enable employees to carry out their responsibilities effectively.

Experience can be gained through various employment settings, including full-time positions, internships, and even voluntary work. Employers often place significant importance on work experience during recruitment processes, as candidates with more experience are expected to have a better understanding of job duties and problem-solving abilities. Consequently, employees with extensive work experience tend to perform better and are more capable of handling challenges effectively. Beyond work experience, compensation also plays a critical role in shaping employee performance. Compensation refers to the remuneration offered by employers for the work performed by employees. It is an essential factor in maintaining job satisfaction and motivation, which are key contributors to high performance. Proper compensation ensures that employees feel valued for their efforts, encouraging them to remain engaged and productive.

Compensation typically includes direct payments such as salaries, wages, and bonuses, as well as indirect benefits like health insurance, retirement plans, and other perks. When compensation is properly managed, it helps the organization achieve its goals by attracting, retaining, and motivating skilled employees. However, insufficient compensation may result in dissatisfaction, decreased morale, and reduced performance. In extreme cases, it can lead to higher turnover rates and absenteeism. Offering fair and competitive compensation packages is critical for maintaining a motivated workforce that is committed to contributing to the company's success. In addition to addressing employees' basic needs, compensation also serves as a form of recognition for their efforts and achievements. Adequate compensation supports employees' financial and emotional well-being, which in turn boosts their productivity and job satisfaction.

This study aims to empirically examine the relationship between work experience, compensation, and employee performance in state-owned enterprises (SOEs). By using a quantitative approach with regression analysis, this research will explore how these two factors influence performance. The findings will provide valuable insights for organizations looking to optimize their HR practices and enhance employee performance, ultimately contributing to the achievement of business goals. The study's results will also assist management in understanding the most effective ways to leverage work experience and compensation strategies to improve overall organizational outcomes.

## 2 | BACKGROUND THEORY

### The Impact of Work Experience on Employee Performance

Work experience is a crucial factor that companies must consider when recruiting employees. In carrying out assigned tasks, work experience can serve as a key element that supports an individual's performance in completing their duties, contributing to the achievement of organizational goals. With extensive experience, the likelihood of achieving high performance and accomplishments is considerably higher. Conversely, insufficient experience can lead to a higher chance of failure in performing tasks. There are several dimensions that determine whether an individual has sufficient experience, such as the length of service, the skills possessed, and mastery of the tasks. According to research by Anggraini & Suwarni (2023) and Hayati et al. (2020), work experience has a positive and significant impact on employee performance. With a broad range of experience and adequate knowledge, employees are expected to possess a higher level of competence compared to those with less experience. Hypothesis 1 (H1): Work experience has a significant effect on employee performance.

### The Impact of Compensation on Employee Performance

Compensation is defined as a company's ability and responsibility to reward its employees for achieving performance goals and fulfilling their duties (Manao et al., 2022). Several indicators can be used to measure compensation. The first is wages and salaries. Wages generally refer to hourly pay, while salaries are associated with weekly, monthly, or annual

payments. The second indicator is incentives. Incentives are additional compensations provided above or beyond regular wages or salaries. The third is benefits. Benefits include health and life insurance, retirement programs, vacation time, and other perks offered by the company. The fourth indicator is facilities, which refer to the advantages employees receive, such as access to a company car when working outside the office. In a study conducted by Sopi and Zumrotun Nafiah (2019), it was found that the level of compensation has a positive and significant effect on employee performance. Hypothesis 2 (H2): Compensation has a significant effect on employee performance.

### 3 | METHOD

This study adopts a quantitative approach, utilizing regression analysis to examine the relationships between work experience, compensation, and employee performance. Data was collected from primary sources through a questionnaire distributed to respondents. A modified Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), was used to measure responses, ensuring a standardized method for evaluating participants' views. Purposive sampling was applied to select 110 respondents, all of whom are employees at state-owned enterprises (SOEs) with a minimum of five years of service. The criteria were established to ensure participants possessed enough experience to provide reliable insights into the relationship between work experience, compensation, and performance. This approach helps to capture relevant data from individuals who are well-acquainted with the subject matter. After data collection, the measurement model was tested to assess both validity and reliability. Convergent validity was examined through the average variance extracted (AVE) for each variable. For discriminant validity, the square root of the AVE for each construct was compared against its correlation with other variables to confirm that each construct was distinct. Reliability was evaluated using composite reliability, which measured the internal consistency of the items associated with each construct.

Data analysis was performed using Partial Least Squares (PLS) via the SmartPLS version 3.29 software. PLS was selected for its ability to handle multiple dependent variables and its flexibility with small sample sizes, as well as its minimal assumptions regarding data distribution. This method facilitates an in-depth analysis of the relationships among the variables, allowing for a thorough understanding of how work experience and compensation contribute to employee performance. The analysis aims to provide meaningful insights for improving HR practices in state-owned enterprises and enhancing overall organizational performance through better management of human resources.

### 4 | RESULTS AND DISCUSSION

#### 4.1 Results

##### 4.1.1 Validity Test (Convergent Validity)

The convergent validity test is conducted by measuring outer loadings, AVE, and composite reliability. The Experience (X1) variable shows outer loadings ranging from 0.749 to 0.864, with an AVE of 0.660 and composite reliability of 0.908, indicating good validity. The Compensation (X2) variable has loadings between 0.757 and 0.893, an AVE of 0.669, and composite reliability of 0.924, indicating high reliability. For Employee Performance (Y), the outer loadings range from 0.708 to 0.874, with an AVE of 0.615 and composite reliability of 0.905, supporting the validity and reliability of all constructs.

Table 1. Outer Loadings Results

Variable	Indicator	Outer Loadings	Alpha	Composite Reliability	AVE
Work Experience (X1)	PK.1	0.749	0.875	0.908	0.660
	PK.2	0.776			
	PK.3	0.864			
	PK.4	0.828			
	PK.5	0.840			
Compensation (X2)	K.1	0.758	0.901	0.924	0.669
	K.2	0.893			
	K.3	0.828			
	K.4	0.816			

Employee Performance (Y)	K.5	0.847			
	K.6	0.757			
	KK.1	0.708			
	KK.2	0.774			
	KK.3	0.831	0.873	0.905	0.615
	KK.4	0.874			
	KK.5	0.786			
	KK.6	0.720			

Source: Primary Data Processed with SmartPLS, 2025

Table 1 shows that the loading factor values for each indicator are greater than 0.70, demonstrating the reliability of each indicator in assessing the performance of employees in state-owned enterprises (SOEs). The reliability levels are indicated by the alpha value and composite reliability, both of which are greater than 0.70. This suggests that each variable is reliable, and the reliability of each construct varies by indicator. Furthermore, since all AVE values exceed 0.5, indicating the level of convergence, all variables strongly meet the convergence criteria.

#### 4.1.2 R-Square (R<sup>2</sup>)

R-Square (R<sup>2</sup>) is a statistical metric used to assess how well independent variables explain the variance in a dependent variable. It indicates the proportion of variability in the dependent variable that is captured by the model. Values range from 0 to 1, with higher values suggesting a better model fit. For example, an R<sup>2</sup> of 0.514 means the independent variables account for 51.4% of the variance in the dependent variable, while 48.6% remains unexplained. This measure helps determine the effectiveness of the model in predicting outcomes based on the given data.

Table 2. R-Square Results

	R-Square(R <sup>2</sup> )	R-Square Adjusted	R-Square(R <sup>2</sup> )	R-Square Adjusted
Employee Performance (Y)	0,514		0,485	

Source: Primary Data Processed with SmartPLS, 2025

Table 2 shows that employee performance (Y) has an R<sup>2</sup> value of 0.514, indicating that employee performance is influenced by several factors, including working work experience and compensation, accounting for 51.4%. The remaining 48.6% is influenced by other factors not examined in this study.

#### 4.1.3 Path Coefficient Test

The path coefficient test is used to assess the relationships between variables in a structural model, often applied in methods like Partial Least Squares (PLS). To determine whether the relationships between variables are significant, hypotheses are tested based on t-statistics and p-values. A hypothesis is accepted if the t-statistics exceed the critical t-table value or if the p-value is less than 0.05. If the t-statistics are greater than the t-table value, the relationship between variables is considered significant, and the hypothesis is accepted. On the other hand, if the t-statistics are smaller or the p-value exceeds 0.05, the hypothesis is rejected, indicating the relationship is not significant. This test is crucial for ensuring that the model accurately represents the relationships between variables and that the results are not coincidental. By conducting a path coefficient test, researchers can evaluate the strength of relationships within the model being examined.

Table 3. Results of the Path Coefficient Test

Sample	Standard	T Statistics	Mean(M)	Deviation (STDEV)	( T/STDEV )	P-Values
Pengalaman Kerja (X <sub>1</sub> )	→		0.366	0.156	2.347	0.032
Kinerja Karyawan (Y)						
→			0.196	0.112	1.542	0.238
Kompensasi (X <sub>2</sub> )	→					
Kinerja Karyawan(Y)						

Source: Primary Data Processed with SmartPLS, 2025

Table 3 shows that the t-statistic for work experience is 2.347, which is higher than the t-table value of 1.65, while

the p-value is 0.032, which is lower than 0.05. This indicates that work experience has a significant impact on employee performance, so H1 is accepted. In contrast, compensation has a t-statistic of 1.542, which is smaller than the t-table value of 1.65, and a p-value of 0.238, which is higher than 0.05. This suggests that compensation does not have a significant effect on employee performance, and thus H2 is rejected.

## 4.2 Discussion

Based on the data analysis, work experience has a significant impact on employee performance. Work experience helps enhance employee performance as employees with more experience tend to possess greater skills and knowledge. Experienced employees can quickly understand problems, make decisions, and adapt to the work environment. This suggests that work experience can positively affect employees in state-owned enterprises (SOEs), allowing them to improve their performance. Work experience is one of the factors that influence an employee's success in completing tasks on time. With extensive work experience, an individual is expected to perform effectively in achieving the company's goals. This finding aligns with research by Sholiha & Supriyatin (2019), Sari & Ubaidillah (2024), Sijabat et al. (2021), Yasin et al. (2021), and Pitriyani & Halim (2020), which states that work experience has a significant impact on employee performance.

Based on the data analysis, compensation does not have a significant effect on the performance of SOE employees. Compensation may not have an impact because employees feel their financial needs are already met, or other priorities, such as a conducive work environment, might be more important to them, providing comfort while working. Although compensation does not show a significant effect on employee performance in this study, it is still important for companies to consider providing compensation as a way to recognize employees' contributions, fostering a positive relationship between the employee and the company. Compensation could be offered to employees who perform well, have a long service record, or hold significant responsibilities. The results of this study contradict findings from Pitriyani & Halim (2020) and Setiawan et al. (2022), which assert that compensation has a significant effect on employee performance, meaning that higher compensation is associated with higher performance.

## 5 | CONCLUSIONS AND FUTURE WORK

Work experience has a significant impact on employee performance in state-owned enterprises (SOEs). Employees with more experience tend to perform better due to their enhanced skills and ability to handle tasks efficiently. However, compensation does not significantly influence employee performance in these organizations. The analysis shows that employee performance (Y) has an  $R^2$  value of 0.514, meaning that work experience and compensation together account for 51.4% of the factors affecting performance. The remaining 48.6% is influenced by other variables not examined in this study.

For future research, it would be valuable to examine employee performance in private companies, incorporating additional factors such as work motivation or other elements that may affect performance. Using different research methods, such as interviews, could provide deeper insights and more accurate data from participants, helping to expand the discussion and improve the accuracy of findings. Further studies could also consider other variables, such as organizational culture, leadership styles, and job satisfaction, to better understand how different factors influence employee performance. By broadening the scope of research, future studies can provide a more complete picture of what drives success and productivity within organizations.

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