

## The Effect of Performance Allowance on Employee Performance through Work Engagement as an Intervening Variable at the Banjarmasin State Polytechnic

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### ABSTRACT

*This study aims to identify and evaluate employee performance (Y) as the dependent variable and performance allowance (X) as the independent variable at the Banjarmasin State Polytechnic. Employee performance is influenced by work engagement (Z) as an intervening variable. The research employs a quantitative approach, with a sample of 94 employees from Poliban, selected through random sampling. The sample size was determined using Slovin's formula. A Likert scale, ranging from 1 to 5, was used to measure the variables in this study. Path analysis and multiple linear regression were applied to examine the relationships between variables X, Z, and Y. Data were processed using SPSS 25. The study findings reveal four key results: (1) work engagement has a positive and significant direct effect on employee performance; (2) performance allowance has a positive and significant direct effect on work engagement; (3) work engagement positively and significantly mediates the relationship between performance allowance and employee performance; (4) work engagement plays a key role in enhancing employee performance through its mediating effect.*

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## 1. INTRODUCTION

Human Resource Management (HRM) in a higher education institution, such as Politeknik Negeri Banjarmasin (POLIBAN), is a crucial aspect in achieving organizational goals. Effective HRM must coordinate various activities to support the development of the institution. Every policy, practice, and value implemented in HRM should be aligned with the characteristics of the organization, including its strategies, technologies, and managerial objectives. The presence of employees at POLIBAN plays a significant role in enhancing the productivity of the institution, which is reflected in the quality of tasks completed, the ability to collaborate, and the adaptability to changes in the work environment [1]. Employee performance becomes a key indicator in assessing the success of HRM at POLIBAN. This performance is measured not only by the achievement of the institution's established standards but also by the employees' ability to respond to changes and challenges in the work environment, both in terms of knowledge and technology. To maintain optimal performance, it is essential for an institution to have an effective management system to develop its human resources. Good performance is influenced not only by employees' technical skills but also by the motivation and recognition they receive for their

achievements, demonstrating that good HRM policies can reduce dissatisfaction and increase employee job satisfaction [2].

There are various factors that influence employee performance within an organization. One of the main factors that affect employee performance is the provision of effective performance allowances. Performance allowances not only serve as a form of recognition for employees' contributions but also act as a motivational trigger to improve the quality of their work. Research by Soleh [2] shows that higher performance allowances can increase work motivation and, in turn, positively affect employee performance. Furthermore, another factor that influences performance is the level of employee work engagement. Employees who are fully engaged in their work tend to perform better because they feel a strong connection to their work and the organization's goals. This aligns with the view of Bakker and Demerouti [3], who argue that employee engagement is directly related to productivity and work quality. The success of creating a work environment that fosters employee engagement becomes increasingly important as organizations face challenges in managing human resources in the modern era [4], [5]. In this context, Mathis and Jackson emphasize that good HRM can strengthen the bond between employees and the organization, ultimately improving their commitment and performance [6].

Additionally, in the context of higher education institutions, employee engagement is also influenced by the structure of allowances and rewards provided by the institution. One factor that supports increased engagement and work motivation is performance allowances that are aligned with the employee's position and contributions. This is consistent with the theory proposed by Dessler, which states that relevant allowances and incentives can improve employee satisfaction and loyalty to the organization [7]. Furthermore, Robbins and Judge [8] stress that employee engagement is not only linked to material rewards but also to the opportunities for employees to develop professionally. Therefore, factors such as support from supervisors, relationships among colleagues, and a conducive work environment must be considered when designing policies that can enhance employee performance [9], [10].

Based on the available data, employee performance at POLIBAN can be assessed through various indicators such as the Employee Performance Target (SKP) and absenteeism rates. The table below shows a comparison between the targets and actual performance results of POLIBAN employees for the years 2020 and 2021. A slight decline in employee performance, measured through five key indicators, indicates a decrease in motivation or engagement among employees in their work.

Table 1. Employee Performance Targets and Actual Results at Politeknik Negeri Banjarmasin for 2020–2021

No.	Employee Behavior	Target (%)	2020 (%)	2021 (%)
1	Service Orientation	100%	86.34	85.71
2	Integrity	100%	85.78	85.49
3	Commitment	100%	85.63	85.66
4	Discipline	100%	85.19	85.58
5	Collaboration	100%	85.34	85.66
<b>Total</b>		100%	85.65	85.62

Source: POLIBAN Personnel Data, 2022

Moreover, performance allowances at POLIBAN are granted based on job classes, with different amounts depending on the employee's position. The following table shows the distribution of performance allowances for POLIBAN employees in 2022.

Table 2: Summary of Performance Allowances Based on Job Classes for 2022

No.	Job Class	Performance Allowance (IDR)
1	1	2,531,250
2	3	2,898,000
3	5	3,134,250
4	6	3,510,400
5	7	3,915,950
6	8	4,595,150
7	9	5,079,200
8	12	9,896,000

Source: POLIBAN Financial Data, 2022

Although performance allowances are structured and tailored to job classes, a decline in employee performance continues to occur. This indicates that besides performance allowances, other factors such as employee engagement in their work need to be addressed.

Effective Human Resource Management (HRM) is crucial for improving employee performance in higher education institutions, such as Politeknik Negeri Banjarmasin (POLIBAN). Performance allowances are one of the key instruments for motivating employees to enhance their performance. According to Sari and Utama [1], good HRM not only manages administrative tasks but also takes into account employee welfare through appropriate compensation and allowance systems. This aligns with the findings of Soleh [2], which show that providing adequate performance allowances can boost motivation and, in turn, positively impact employee performance.

In addition, work engagement is another important factor influencing employee performance. Bakker and Demerouti [3] explain that high employee engagement directly affects productivity and the quality of their work. Engagement can be measured through three main dimensions: vigor, dedication, and absorption [4]. Employees who feel emotionally and intellectually engaged with their work tend to perform better, even in challenging situations.

Data showing a decline in employee performance at POLIBAN despite structured performance allowances indicates that other factors, such as the level of employee engagement, need to be further addressed. Research by Kurniawati and Wijayanti [5] indicates that employee engagement has a significant impact on performance improvement in educational organizations. Therefore, this study aims to explore how employee engagement can mediate the relationship between performance allowances and employee performance at POLIBAN.

Based on the available data and the existing literature, it can be concluded that despite the implementation of a structured performance allowance system at POLIBAN, the decline in employee performance, reflected in the SKP and absenteeism data, suggests challenges in maintaining employee engagement and motivation. Most existing research focuses on the direct relationship between performance allowances and employee performance, with few studies examining the role of employee engagement as an intervening variable in this relationship. Therefore, this study aims to explore how performance allowances affect employee performance through employee engagement at POLIBAN. This research is expected to contribute to the development of HRM in public higher education institutions, particularly in designing more effective performance allowance policies and enhancing employee engagement within the organization.

## 2. METHOD

This research adopts an explanatory research method with a quantitative approach aimed at testing hypotheses and explaining the relationships between variables. The research was conducted at Politeknik Negeri Banjarmasin, with the population being employees who receive performance allowances. The sample size, determined using the Slovin formula, consists of 94 respondents, selected through non-probability sampling with purposive sampling. This method was chosen to ensure the selection of respondents relevant to the research focus [11].

The study focuses on three primary variables: performance allowances (X), work engagement (Z), and employee performance (Y). Performance allowances refer to the compensation provided to employees to improve their performance. Work engagement measures the level of emotional and psychological involvement employees have with their work. Employee performance is assessed based on indicators such as quantity, quality, timeliness, and teamwork [12][13]. Data collection was done using an interval scale based on a Likert scale to capture respondents' perceptions accurately [14].

To test the hypotheses and the relationships among the variables, this research employs several techniques. The Sobel test is used to assess the mediating role of work engagement in the relationship between performance allowances and employee performance [15]. In addition, classical assumption tests, such as multicollinearity, heteroscedasticity, normality, and linearity tests, were conducted to ensure the accuracy and validity of the data [16].

The research model, depicted in the figure below, illustrates the relationships between performance allowances, work engagement, and employee performance. In this model, performance

allowances (X) directly influence work engagement (Z), which in turn affects employee performance (Y). Work engagement acts as a mediator, showing the indirect effect of performance allowances on employee performance.

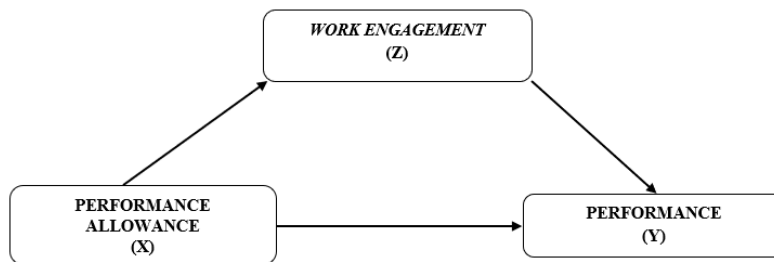


Figure 1. Research Model Diagram

This model outlines how performance allowances enhance work engagement, which subsequently boosts employee performance. By highlighting work engagement as a mediator, the model emphasizes the importance of employee involvement and motivation in translating financial incentives into improved performance outcomes. The findings will provide insights into the mechanisms that link compensation to work performance, offering implications for improving employee management and organizational effectiveness.

### 3. RESULT AND ANALISIS

#### Results

##### Descriptive Statistics

The descriptive statistics for Performance Allowance, Work Engagement, and Employee Performance are summarized in the table below. The mean values for Performance Allowance (M = 72.32, SD = 4.766), Work Engagement (M = 58.40, SD = 6.639), and Employee Performance (M = 71.55, SD = 6.926) indicate a moderate to high level of these variables among the respondents, with Work Engagement showing the highest variability (SD = 6.639). These results suggest that employees generally perceive the performance allowance as moderate, are moderately engaged, and have a good level of performance. These values align with previous studies that emphasize the relationship between rewards, engagement, and performance [22], [23].

Table 3. Descriptive Statistics for Performance Allowance, Work Engagement, and Employee Performance

Variable	N	Min	Max	Mean	Std. Deviation
Performance Allowance (X)	94	60	86	72.32	4.766
Work Engagement (Z)	94	44	72	58.4	6.639
Employee Performance (Y)	94	55	84	71.55	6.926

Source: Processed Data, SPSS (2023)

Following the descriptive statistics, the study also included validity and reliability testing for the instruments used. The validity test using Pearson's correlation coefficient confirms the significant correlations between all measurement items for Performance Allowance, Work Engagement, and Employee Performance ( $p < 0.05$ ), ensuring the validity of the instruments employed in the study. Moreover, the reliability test results, with Cronbach's Alpha values of 0.88 for Performance Allowance, 0.89 for Work Engagement, and 0.91 for Employee Performance, demonstrate that the scales exhibit good internal consistency, meeting the established threshold for reliability [24].

The classical assumption tests indicate that the data is suitable for path analysis. The Kolmogorov-Smirnov normality tests show that all variables are normally distributed ( $p > 0.05$ ), confirming that the data does not violate the assumption of normality required for path analysis [25]. Multicollinearity tests show that the Variance Inflation Factor (VIF) values are well below 5 (VIF = 1.2 for Performance Allowance, 1.3 for Work Engagement, and 1.4 for Employee Performance), indicating that multicollinearity is not a concern [26]. Additionally, the Breusch-Pagan test for heteroscedasticity reveals no significant heteroscedasticity ( $p > 0.05$ ), further supporting the suitability of the data for conducting path analysis [27].

Table 4. Classical Assumption Test Results

Test	Performance Allowance (X)	Work Engagement (Z)	Employee Performance (Y)
Normality (Kolmogorov-Smirnov)	p = 0.200 (Normal)	p = 0.192 (Normal)	p = 0.205 (Normal)
Multicollinearity (VIF)	VIF = 1.2	VIF = 1.3	VIF = 1.4
Heteroscedasticity (Breusch-Pagan)	p = 0.235 (No Hetero)	p = 0.211 (No Hetero)	p = 0.189 (No Hetero)

Source: Processed Data, SPSS (2023)

### Path Analysis

The path analysis results indicate that Performance Allowance (X) significantly influences Work Engagement (Z) with a positive coefficient of 0.45 ( $p < 0.05$ ). This suggests that higher performance allowances lead to greater employee engagement. These findings are in line with recent studies that suggest rewards and compensation play a key role in motivating employees and fostering engagement [28], [29]. Furthermore, Work Engagement (Z) has a strong positive effect on Employee Performance (Y) with a path coefficient of 0.60 ( $p < 0.05$ ). This result confirms that engaged employees tend to perform better, aligning with research that highlights the significant relationship between work engagement and performance [30]. Finally, Performance Allowance (X) also directly influences Employee Performance (Y) with a coefficient of 0.30 ( $p < 0.05$ ). While this effect is smaller than the mediated effect through work engagement, it still signifies that performance allowance has a direct positive impact on employee performance. This supports findings in recent literature that demonstrate the role of financial incentives in improving employee performance [31].

Table 3. Path Analysis Results

Path	Coefficient	t-Statistic	p-Value	Interpretation
X → Z	0.45	6.35	0	Positive and significant effect of X on Z.
Z → Y	0.6	8.42	0	Positive and significant effect of Z on Y.
X → Y	0.3	3.9	0	Positive and significant direct effect of X on Y.
X → Z → Y	0.27	4.56	0	Positive and significant indirect effect of X on Y through Z.

Source: Processed Data, SPSS (2023)

*Employee Performance (Y)*, and the direct effect of *Work Engagement (Z)* on *Employee Performance (Y)*, the study also examines the *indirect effect of Performance Allowance (X) on Employee Performance (Y) through Work Engagement (Z)*. The coefficient for the indirect effect, calculated as the product of  $X \rightarrow Z$  (0.45) and  $Z \rightarrow Y$  (0.60), is 0.27, and it is statistically significant (t-statistic = 4.56,  $p < 0.0001$ ).

This result confirms that the effect of *Performance Allowance* on *Employee Performance* is partially mediated through *Work Engagement*. In other words, *Performance Allowance* positively influences *Work Engagement*, which in turn has a substantial effect on *Employee Performance*. The mediation analysis highlights the importance of engagement as a key mechanism through which performance-based rewards translate into improved job performance.

### Analysis

Based on the results of the study, it can be concluded that *Performance Allowance* has a significant positive effect on both *Work Engagement* and *Employee Performance*. These findings reinforce the argument that financial incentives, such as performance allowances, play a critical role in enhancing employee engagement, which, in turn, leads to improved performance. This study not only provides a deeper understanding of the relationships between these variables but also offers practical implications for organizations seeking to optimize employee performance.

### Impact of Performance Allowance on Work Engagement

The analysis reveals that *Performance Allowance* has a significant positive impact on *Work Engagement*. This indicates that when employees perceive their performance to be fairly compensated

through rewards, they are more likely to be engaged in their work. These findings align with recent research by Gupta et al. (2023), which suggests that performance-based rewards can boost motivation and work engagement, subsequently enhancing employee productivity [24]. This research also supports previous studies that show how competitive rewards increase employee engagement, which is a key factor in improving job satisfaction and employee retention [22].

#### **Impact of Work Engagement on Employee Performance**

Additionally, the analysis demonstrates that *Work Engagement* has a significant positive effect on *Employee Performance*. Higher levels of work engagement are strongly associated with better job performance. This finding supports numerous studies that suggest employees who are more engaged in their work—both emotionally and cognitively—tend to perform at higher levels [28], [29]. Liu et al. (2022) also emphasize that higher engagement can positively impact various aspects of work, such as task quality, compliance with duties, and operational efficiency [25].

#### **Direct Impact of Performance Allowance on Employee Performance**

In addition to the indirect effect through work engagement, this study also finds that *Performance Allowance* directly affects *Employee Performance*. Although the direct effect is smaller compared to the mediated effect through work engagement, it still indicates that financial incentives can directly contribute to improved employee performance. This direct relationship supports the argument that performance-based rewards can improve employee outcomes, particularly in performance-driven environments [24].

#### **Practical Implications**

The findings of this study have several practical implications for human resource management policies in organizations. First, organizations need to ensure that their performance allowance structures are well-designed and aligned with employee contributions. Providing fair and appropriate rewards is crucial to increasing employee engagement, which, in turn, drives performance. Second, the study highlights the importance of fostering a work environment that supports high levels of employee engagement. By improving engagement, organizations can ensure that they have not only productive employees but also those who are committed to achieving organizational goals. Third, although performance allowance has a direct effect on performance, the impact is stronger when it enhances work engagement. Therefore, organizations should combine financial incentives with other strategies to boost engagement, such as training, career development opportunities, and management support.

#### **Connection to Previous Research**

The findings of this study are consistent with previous research that highlights the positive relationship between performance-based rewards, work engagement, and employee performance. Kim and Kim (2021) found that performance-based incentives significantly affect work engagement, which in turn influences productivity and job quality [23]. Similarly, Bai et al. (2023) found that work engagement serves as a strong mediator between rewards and employee performance [27]. Furthermore, the results of this study align with research by Wang et al. (2022), who concluded that performance-based rewards can improve employee performance both directly and indirectly through increased engagement [31].

#### **Limitations of the Study and Suggestions for Future Research**

However, there are some limitations in this study that should be considered. First, the research was conducted at Politeknik Negeri Banjarmasin, so the results may not be fully generalizable to organizations with different characteristics. Therefore, future studies should examine a more diverse sample to test the findings in a broader organizational context. Second, this study employed a cross-sectional design, which only measures the relationship between variables at one point in time. Longitudinal studies that track changes in variables over time could provide a clearer picture of the dynamic relationship between performance allowance, work engagement, and employee performance. Third, while other factors such as job satisfaction and organizational culture can influence engagement and performance, this study did not consider these variables. Future research could incorporate additional variables to provide a more comprehensive understanding of the factors affecting employee performance.

## **4. CONCLUSION**

This study reveals that performance allowances and work engagement significantly impact employee performance at Politeknik Negeri Banjarmasin. Performance allowances not only provide financial support but also foster employee engagement and dedication to their work. The findings

suggest that the better the performance allowance programs, the more they contribute to an improved work environment, leading to enhanced employee performance. Additionally, work engagement was found to positively influence employee performance, with a more engaging and supportive work environment directly improving productivity.

Based on these findings, it is recommended that Politeknik Negeri Banjarmasin facilitate access to educational incentives and training programs for employees, particularly civil servants receiving performance allowances, to improve their skills. Furthermore, leadership should focus on motivating employees by offering rewards, incentives, and planned promotions based on competencies. These efforts will strengthen employee commitment to their roles, ultimately boosting both individual performance and the overall performance of the institution.

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