

# THE IMPACT OF ORGANISATIONAL COMMITMENT, MOTIVATION AND FINANCIAL COMPENSATION ON WORK SATISFACTION AND EMPLOYEES' PERFORMANCE: AN EVIDENCE FROM SMALL BUSINESS FIRMS IN SOUTH SUMATERA-INDONESIA

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**Abstract:** *This study attempts to investigate the impact of organisational commitment, motivation and financial compensation on work satisfaction and employees' performance in particular the South Sumatera-Indonesia's craftsmen and craft industry. Using 480 craftsmen and 60 craft firms as sample that has been chosen using proportionate simple random sampling, a survey method is employed to obtain information required to conduct the study. In the end, the information obtained through survey is analysed using structural equation modeling. Apart from financial compensation, organisational commitment and work motivation have a significant and positive impact on work satisfaction and Employees' performance. The result indicates that financial compensation is not the only factor which may impact work satisfaction which in the end has an impact on highly employees' performance on the craft industry in South Sumatera-Indonesia as the theory of compensation may be applied on other industry.*

**Key words:** *Organisational commitment, work motivation, financial compensation, work satisfaction, Employees' performance*

*JEL Classification*

## 1. INTRODUCTION

Organisational commitment is the individual's psychological attachment to the organisation. Not only has it determined whether an employee will stay with the organisation and commit to the organisation's purposes, it has also predicted work variables such as turnover and employees' performance. If ones has had organisational commitment, motivation will come along with it, and in the end it will ultimately affect employees' performance. The impact of organisational commitment, motivation and financial compensation on work satisfaction and employees' performance has been investigated by many researchers (Chin-Ju Tsai, 1989; Peterson and Luthans, 2006; Celik, 2009; Ziauddin, Clocks and Ramay, 2010; Choudhury, 2010; Saleem, Azeem and Mahmood, 2010; Nadia and Rafif, 2010;

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Khalid, Mat Salim and Loke, 2011; Klassen, Libby and Webb, 2011; Berger, Prasetya and Kato, 2011; Qaisar, Rehman and Suffyan, 2012; Kader and Anisa, 2012; Adekola, 2012). Many studies have focused on large firms in developed markets, and this study focuses on small and medium firms (SMEs).

SMEs has a significant role in enhancing economic growth in Indonesia in terms of providing job opportunities, enhancing the quality of human resources, nurturing a culture of entrepreneurship, fostering creativity and opening up new business opportunities. The development of small medium enterprises (SMEs) has led to the hope that the Indonesian economy will grow steadily as SMEs contribute over 50% of all gross domestic product (GDP) in most emerging countries. Though SMEs highly contribute to the economy, there are barriers faced by most SMEs such as market barriers, financial barriers, technology barriers and management barriers. Nevertheless, few solutions have been proposed both by government and private institutions to overcome those barriers. For the financial barriers, the government has offered SMEs for loans without collateral, however in practice, it was not as it proposed. Most financial institutions required collateral in the form of financed objects and fixed assets to secure loan.

All sectors in SMEs is inseparable from those barriers. There are nine types of SMEs' industry according to regulation promulgated by the Ministry of Cooperatives and Small Business Enterprises. Those industries are (1) Agriculture, Stockbreeding, Forestry and Fishery, (2) Coal and Mining Industry, (3) Processing, Home and Handicraft Industry, (4) Utilities Industry (Power, Gas and Water), (5) Construction and Construction Tools Industry, (6) Trade, Hotel and Restaurant Industry, (7) Transportation and Communication Industry, (8) Finance and Firm Services Industry, and (9) Services Industry. This study focuses on processing, home and handicraft industry. One of the handicraft industries which are the object of this study is the *songket* weaving industry in South Sumatra-Indonesia.

*Songket* weaving is the traditional craft of Palembang people-South Sumatera and is generally produced by home industry. The work of weaving is usually done by women. The weaving has various types, such as: *Lepus*, *Jando beraes*, *bunga inten*, *tretes midar*, *pulir biru*, *kembang suku hijau*, *bungo cino*, *bungo pacik*, and many others. In each type of Palembang *songket*, there are three main parts in the motif structure which must exist in the *songket* motifs center or bamboo shoots, central flower motif, and the motif periphery or edge of the fabric. In the outskirts of *songket* motifs consists of flowers, waves, wedge, *rumpak*, wedge, bamboo shoots and *taur*. As for the fringe shawl consists of *tretes*, *kembang*, *ombak*, *apit*, *rumpak*, *apit*, *rebung*, *taur dan tretes*.

Weaving / *Sewet Songket* Palembang (in the form of cloth or scarf) is well known both in Indonesia and abroad. Weaving is made of silk threads which are woven with gold thread combination in the taste of high art. Privileged Weaving *Songket*

is a meticulous manufacturing process so as to make the cloth; it will take 3-6 months. In addition, the design is not always the same between the one craftsman to the other craftsmen, depending on their individual tastes.

A *Songket weaver* becomes one of the most important components in the production chain. The industry needs to get more attention, through various developmental efforts which are focused on the *songket* issues faced by the craftsmen. *Songket Weaving Industry* in South Sumatra has a promising future because it takes a lot of employment, as well as contributing large funds for the region.

Based on the interview with handicraft managers, it reveals that the level of job satisfaction of the *songket's* craftsmen is less. Similarly, the turnover rate of craftsmen, in which was taken as the pre-research data shows that every year there are craftsmen who quit, besides due to the lack of attendance, it is also caused by the inability to weave and inadequate salary levels. Hence, this study attempts to investigate how organisational commitment, motivation and financial compensation affects work satisfaction and employees' performance in small and medium firms.

## **2. LITERATURE REVIEW**

The employee's performance is the implementation of the functions required by a person and can be measured on results (Whitmore, 1997). The employee's performance is the work of someone after being compared with the predetermined targets (Cushway, 2002). Performance is a record of the results obtained from the functions of a particular job or a particular activity during a certain period of time (Bernardin and Russel, 2003). The dimensions of employee's performance consists of: 1). Quality, 2). Quantity, 3). Time (Timelines), 4). Cost Effectiveness, 5). Supervision's needs, and 6). Interpersonal Impact (Bernardin and Russel, 2003). While Dessler (2005) classified employee's performance into five dimensions of performance, namely: 1). Work Quality, 2). Job quantity, 3). Supervision, 4). Attendance, and 5). Conservation.

Job satisfaction is divide into two types; 1) functional satisfaction is the satisfaction derived from achievement or completion of tasks which are the responsibility of the employee, and 2) psychological satisfaction is the satisfaction obtained from the other side of the fulfillment of duties and obligations (Luthan and Farlin, 2002). The dimensions of job satisfaction are classified into; the individual dimension, social dimension, and the dimension of work (Hampton, Summer, and Webber, 2008). While Gregory (2010) categorised the dimensions of job satisfaction into: 1). Progressiveness opportunity, 2). Job security, 3). Salary, 4). Organization and management, 5). Supervision, 6). Intrinsic dimension of the work, 7). Working conditions 8). Social aspects of the job, 9). Communication and 10). Facilities.

Employees' commitment is the confidence on the value of the organization, a willingness to strive for the sake of the organization, and loyalty to the organization. Commitment of the employee to the organization is as the relative strength and the involvement of certain individuals in an organization, which is identified by the presence of a strong belief in the organization's goals, willingness to perform certain business for the organization (Mowday, Porter and Steers, 1979). Cook and Wall (1980) classified the dimensions of organisational commitment into:

1) a strong belief and acceptance of the goals and values of the organization by an employee; 2) Willingness to work hard as a part of the organization when needed, and; 3) a strong desire to remember the organization. Moreover, Allen and Meyer (1990) divided the dimensions into: affective commitment, continuance commitment, and normative commitment. Furthermore, John Mincer (2002) categorised organisational commitment into four different dimensions; personal, job characteristics, the characteristics, structure and work experience.

Ruitenbergh and De Beer (2012) successfully conduct research and enhance work motivation dimensions. These dimensions have been widely used by many researchers such as Olivier (2002), Ruitenbergh and De Beer (2012), Ali and Ahmed (2009), Khan, Farooq and Ullah (2010) and Martin (2001). The dimensions of work motivation variables of Ruitenbergh and De Beer (2012) are as follows: 1). Job content, 2). Payment of wages, 3) promotion, 4) recognition, 5). Benefits, 6). Personal and 7) the leaders. Dimensions used in this study are the content of the work, recognition and feelings. Heneman and Schwab (1985) classified the dimensions of job satisfaction for compensation into; level pay, pay system, and benefits.

The impact of organisational commitment, motivation and financial compensation on work satisfaction and employees' performance has been investigated by many researchers (Chin-Ju Tsai, 1989; Shore and Martin, 1989; Adeoti and Isiaka, 1992; Condly and Richard, 2002; Andrew Iskandar, 2005; Peterson and Luthans, 2006; Ziauddin, Clocks and Ramay, 2010; Nadia and Rafif, 2010; Paul Ayobami, 2011; Prasetya and Kato, 2011; Qaisar, Rehman and Suffyan, 2012; Anthony, 2012; Trivellas, Kakkos and Reklitis, 2012). Previous studies found that work motivation and employees' performance are affected by job satisfaction and organisational commitment (Shore and Martin, 1989), organisational commitment (Khan, Ziauddin, Clocks and Ramay, 2010; Qaisar, Rehman and Suffyan, 2012), leadership style (Khan, Ziauddin, Clocks and Ramay, 2010; Ayob, 2011; Muhammad Baihaqi F, 2011), motivation and work environment (Nadia and Rafif, 2010; Paul Ayobami, 2011; Anthony, 2012; Trivellas, Kakkos and Reklitis, 2012), financial, non-financial compensation and reward (Chin-Ju Tsai, 1989; Adeoti and Isiaka, 1992; Condly and Richard, 2002; Peterson and Luthans, 2006; Prasetya and Kato, 2011), employees' productivity (Andrew Iskandar, 2005), quality and profitability of the individual (Rachel *et al.*, 2008), the self-evaluation (Joyce E. Bono and Timothy A. Judge, 2003), career development (Natassia Ayudiarini, 2011).

The commitment relates to the intention to stay in an organization, yet it relates indirectly to the performance as performance relates to motivation, role clarity, and the employees' ability (Steers, 1977). Steers (1977) developed a model of the antecedents (causes) of organisational commitment which includes: (1) personal characteristics, (2) characteristics related to job or position, and (3) work experience. Employees who have high organisational commitment will be more motivated to attend the organization and strive to achieve the organisational goals (Mowday, Porter, and Steers, 1979). High organisational commitment has a negative relationship with absenteeism, turnover rate and degree of slackness in the work (Angle and Perry, 2003).

Previous studies found that organisational commitment is affected by Personal characteristics consisted of age, tenure, education level, gender, ethnicity and personality (Steers, 1977; Mowday, Porter and Steers, 1979; Mathieu and Zajac, 1990; De Connick *et al.*, 1994; Angle and Perry, 2003), difficulty of obtaining an award (Grusky, 1966), working duration, period of employment, challenging tasks and a variety of skills (Mathieu and Zajac, 1990), job characteristics (Sneed and Herman, 1990), acceptance of change (Arye and Heng, 1990), persistence of work and distributive justice (De Connick *et al.*, 1994), work and environmental variables (Iverson and Buttigieg, 1999).

According to previous studies, a testable hypothesis in this study is that "*organisational commitment, motivation and financial compensation affect work satisfaction and employees' performance*".

### **3. METHODOLOGY**

#### **3.1. Data**

This research employs a survey method used (1) structured and semi structured questionnaire, (2) in-depth interview. Questionnaire surveys have been the preferred method for the collection of data in studies involving the investigation of the traditional craftsmen. Additional data are obtained through government publications. The population in this study is all traditional craftsmen in the province of South Sumatera, Indonesia, and there are 2,178 craftsmen. The sample size is determined using Hair *et al.* (2009) who states that the minimum respondents required using Structural Equation Modelling (SEM) is at least the total number of respondents multiply by five.

#### **3.2. Population and Sample**

The population of this study was the *songket* craftsmen located in South Sumatra-Indonesia. There are 2,178 craftsmen in South Sumatra. The sample size will be determined by using the provisions of Hair *et al.* (2009) who states that the

minimum required number of respondents in the analysis by using Structural Equation Modeling (SEM) is at least five times of the number of indicators of all the variables in the study. Therefore, the number of samples used is 165 craftsmen. Then the sample selection technique is by using proportionate random sampling in which, the sample size for Palembang is 78 craftsmen and from Ogan Ilir is 87 craftsmen.

### 3.3. Variables

The independent variables are organisational commitment, motivation and financial compensation and the dependent variable is work satisfaction, in which both are used for equation model 1. Work satisfaction is used as independent variable and employees' performance is used as dependent variable for equation model 2.

### 3.4. Model Analysis

This study employs structural equation modelling (SEM), and a structural equation is depicted on Figure 1. The equation modelling is as follows:

Equation for the structural model

$$\eta_1 = \gamma_{11} \xi_1 + \gamma_{21} \xi_2 + \gamma_{31} \xi_3 + \zeta_1$$

$$\eta_2 = \gamma_{12} \xi_1 + \gamma_{22} \xi_2 + \gamma_{32} \xi_3 + \beta_{12} \eta_1 + \zeta_2$$

Equation for measurement model

$$X = \lambda + \delta \times \xi$$

where:

$X$  = indicator exogenous variables

$\lambda \times$  = loading factor of exogenous indicator

$\xi$  = exogenous latent variables

$\delta$  = error of exogenous variables

$$Y = \lambda + \varepsilon \gamma \eta$$

where:

$Y$  = indicator variable endogenous

$\lambda \gamma$  = loading factor of endogenous indicator

$\eta$  = endogenous latent variable

$\varepsilon$  = error of endogenous variables

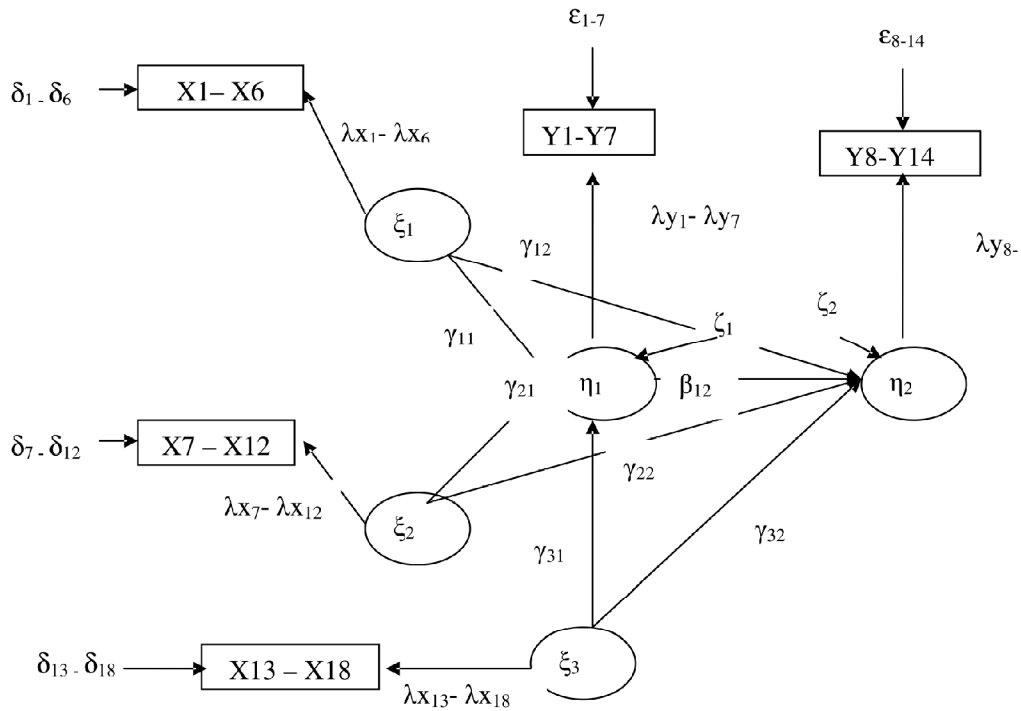


Figure 1: Structural Equation Modelling

- $\beta$  = coefficient paths between endogenous latent variables
- $\gamma$  = path coefficients between exogenous and endogenous latent variables
- $\varphi$  = path coefficient between the latent exogenous variables
- $\lambda$  = path coefficients between the latent variables to the indicators
- $\zeta$  = error of endogenous latent variables
- $\xi_1$  = Commitment exogenous latent variables, X1 - X5 = indicators
- $\xi_2$  = Motivation exogenous latent variables, X6 - X12 = indicators
- $\xi_3$  = latent exogenous variable compensation, X13 - X19 indicators
- $\eta_1$  = Job Satisfaction endogenous latent variables, Y1-Y7 = indicators
- $\eta_2$  = Performance endogenous latent variables, Y8-Y14 = indicators
- $\delta_1 - \delta_{23}$  = error exogenous variables  $\xi_1, \xi_2, \xi_3$
- $\delta_1 - \delta_{15}$  = error of endogenous variables  $\eta_1, \eta_2$

#### 4. FINDINGS

The results reveal that the most influential and dominant factor is organisational commitment in affecting satisfaction and performance. The high value of

organisational commitment compared with other factors caused by two main factors, namely the cultural factors and factors of emotional attachment. Cultural factors may explain why the community craftsmen continuously *songket* weaving *songket* job that ultimately foster a high sense of commitment. In addition, *songket* is typical craft owned by the people of South Sumatra and cultural heritage which needs to be maintained. Therefore, the craftsman feel compelled to craft and maintain their cultural heritage. Moreover *songket* weaving work requires skill, persistence, motivation and insight into high art and science of weaving is not derived from formal education that makes this work is the work that is rare in the absence of *songket* weaving lessons in the subject matter in schools or formal educational institutions. For the emotional attachment factor, weaving *songket* job is a job that is derived mostly by their parents so that they continue to do the job, although some craftsmen have started to leave the job to weave, and do other work. Furthermore, the emotional attachment factor is the result of a sense of responsibility and a love of *songket* (local culture) is taught by family or their parents.

The most influential and dominant factor of organisational commitment is closely linked to satisfaction with financial compensation was not significant but have a positive effect. As described earlier commitment is the result of cultural factors and factors of emotional attachment, so that craftsmen *songket* not concerned wages or financial compensation. Craftsmen weave job is considered part of their soul. *Songket* craftsmen take pride in their work. The other reason why the financial compensation has no significant effect on satisfaction and performance is due to (1) weave job done by women and housewives, so that wages are not income subject. Then the work of weaving is woman's work as well as mothers to fill his spare time while taking care of the family. When other types of work that is done it will interfere with the care of the family. Thus, the wage specified in *songket* production process taken for granted. (2) Awards *songket* buyers or consumers of the products of craftsmen and *songket* itself is also another satisfaction is also higher than wages for the weavers. (3) weave job requires special skills and not everyone can do this job due to personal factors, namely a high patience in weaving to produce quality fabrics, so when weaving *songket* can be resolved properly, weavers feel proud of his work, plus the buyer's appreciation against the *songket* woven. Therefore, the results can later be used as input for the central government and local governments and other relevant agencies to be able to make appropriate policies so that the job is no longer weaving *songket* only be performed by a group of community. So finally the preservation of local culture can be conducted simultaneously by different groups of people.

The results are shown on Figure 2 and Figure 3. Table 1 provides goodness of fit results, Table 2 provides construct validity results, Table 3 provides construct reliability results, Table 4 and 5 provide equation 1 and equation 2 results.



**Table 1**  
**Goodness of Fit Results**

No	Test	Value	Standard	Conclusion
1	Chi Square	42,16		fit
	Probability	0,99	$\geq 0,05$	fit
2	Root Mean Square Error of Approximation (RMSEA)	0,00	$\leq 0,05$	fit
3	Expected Cross-Validation Index (ECVI)	0,87	$\leq 5,00$	fit
4	Aikake Information Criterion (AIC)	118,33	$\leq 819,39$	fit
5	Root Mean Residual (RMR)	0,062	$\leq 0,1$	fit
6	Goodness of Fit Index (GFI)	0,96	$0 - 1, \geq 0,9$	fit
7	Adjusted Goodness of Fit Index (AGFI)	0,94	$0 - 1, \geq 0,9$	fit
8	Normed Fit Index (NFI)	0,95	$0 - 1, \geq 0,9$	fit
9	Comparative Fit Index (CFI)	1	$0 - 1, \geq 0,9$	fit
10	Incremental Fit Index (IFI)	1,03	$0 - 1, \geq 0,9$	fit
11	Relative Fit Index (RFI)	0,93	$0 - 1, \geq 0,9$	fit
12	Critical N (CN)	223,95	$\geq 200$	fit

**Table 2**  
**Construct Validity Results**

Variables	Construct	t-value Factor Loading	Criteria (student t, $\alpha=0.05$ )	Conclusion
Organisational Commitment	Affective,	4,47	$\geq 1,96$	Valid
	Continuance,	5,39		Valid
	Normative	3,37		Valid
Financial Compensation	Pay Level,	6,41	$\geq 1,96$	Valid
	Pay System	5,59		Valid
Work Motivation	Content,	6,77	$\geq 1,96$	Valid
	Feeling,	4,89		Valid
	Recognize	3,75		Valid
Employees' Performance	Quality,	3,86	$\geq 1,96$	Valid
	Quantity,	5,81		Valid
	Conservation, Interpersonal	4,79 4,82		Valid
Work Satisfaction	Social	4,81	$\geq 1,96$	Valid
	Job	5,79		Valid

**Table 3**  
**Construct Reliability Results**

Variables	Value		Criteria		Conclusion
	CR (Construct Reliability)	VE (Variance Extracted)	CR (Construct Reliability)	VE (Variance Extracted)	
Work Motivation	0,87	0,68	$\geq 0,7$	$\geq 0,5$	Good
Organisational Commitment	0,87	0,70	$\geq 0,7$	$\geq 0,5$	Good
Financial Compensation	0,76	0,61	$\geq 0,7$	$\geq 0,5$	Good
Work Satisfaction	0,86	0,65	$\geq 0,7$	$\geq 0,5$	Good
Employees' Performance	0,74	0,66	$\geq 0,7$	$\geq 0,5$	Good

**Table 4**  
**Equation 1**

Hypothesis	Independent Variables	Coefficient	Standard Error	t- value	Decision	Conclusion
1	Organisational Commitment	0,47	2,02	2,14	Reject Ho	Ada Pengaruh Signifikan
3	Motivation	0,41	2,76	2,99	Reject Ho	Ada Pengaruh
5	Financial Compensation	0,22	1,66	1,29	Cannot Reject Ho	Tidak Ada pengaruh Signifikan

Dependent variable is work satisfaction,  $\alpha = 5\%$ , student t = 1,96

**Table 5**  
**Equation 2**

Hypothesis	Independent Variables	Coefficient	Standard Error	t- value	Decision	Conclusion
2	Organisational Commitment	0,52	0,72	2,21	Reject Ho	Ada pengaruh signifikan
4	Motivation	0,39	0,51	2,02	Reject Ho	Ada pengaruh signifikan
6	Financial Compensation	0,27	0,87	1,90	Cannot Reject Ho	Tidak ada pengaruh signifikan
9	Work Satisfaction	0,46	0,75	2,095	Reject Ho	Ada pengaruh

Dependent variable is employees' performance,  $\alpha = 5\%$ , student t = 1,96

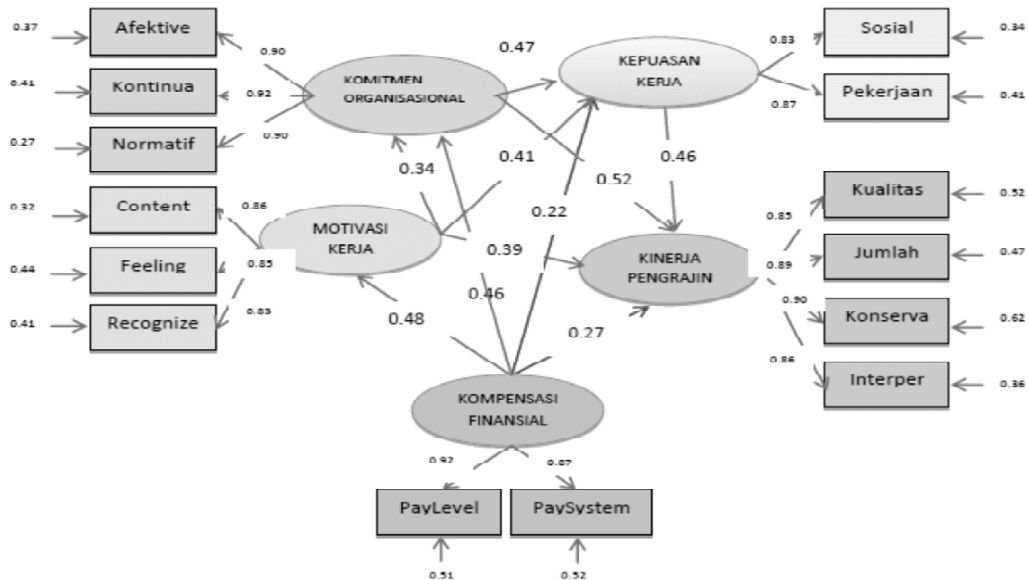
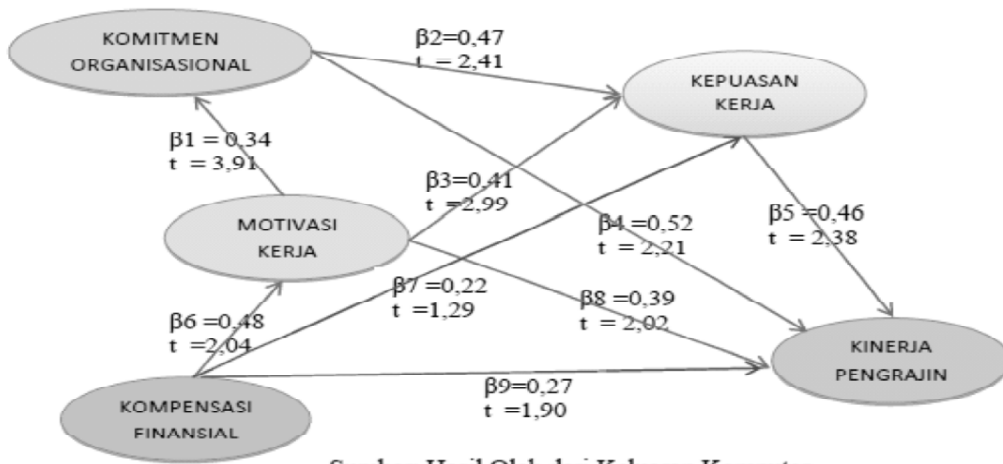


Figure 2: Structural Equation Modelling Hybrid Result



Sumber: Hasil Olah dari Keluaran Komputer

Figure 3: Structural Equation Modelling Final Result

It can be concluded that (1) organisational commitment has positive and significant effect on the performance of the *songket* craftsmen in South Sumatra Province. Thus, the theory that organisational commitment affects the performance of craftsmen, as well as the results of previous studies that also support this theory has been supported by the results of this research; (2) organisational commitment has a positive influence on job satisfaction *songket* craftsmen in South Sumatra

Province. Thus, a theory which states that the effect of organisational commitment on job satisfaction craftsmen, as well as the results of previous studies that also support this theory has been supported by the results of this research; (3) Motivation has positive effect on the performance of craftsmen *songket* in South Sumatra Province. Thus, the theory that work motivation affect the performance of craftsmen, as well as the results of previous studies that also support this theory has been supported by the results of this research; (4) Motivation has positive effect on job satisfaction *songket* craftsmen in South Sumatra Province. Thus, the theory that organisational commitment affect the performance of craftsmen, as well as the results of previous studies that also support this theory has been supported by the results of this research; (5) Financial compensation has positive but not significant effect on the performance of *songket* artisans in South Sumatra Province. Thus, the theory that financial compensation affect the performance of craftsmen, as well as the results of previous studies that also supports the theory is not proved by the results of this research; (6) Financial compensation has positive but not significant effect on job satisfaction *songket* craftsmen in South Sumatra Province. Thus, the theory that financial compensation craftsmen effect on job satisfaction, as well as the results of previous studies that also supports the theory is not proved by the results of this research; (7) Job satisfaction has positive influence on the performance of *songket* craftsmen in South Sumatra Province. Thus, the theory that job satisfaction affects the performance of craftsmen, as well as the results of previous studies that also support this theory has been supported by the results of this research; (8) The level of organisational commitment, work motivation, financial compensation, job satisfaction, and performance *songket* craftsmen in South Sumatra province is at a positive level.

## 5. CONCLUSIONS

The result indicates that financial compensation is not the only factor which may impact work satisfaction which in the end has an impact on highly employees' performance on the craft industry in South Sumatera-Indonesia as the theory of compensation may be applied on other industry. Therefore, it is suggested that the firms' owner raise concern to the *songket* workforce management of the *songket* weavers, mainly in two ways, first: an increase in the ability to produce quality work in good *songket* cloth, and avoid the mistakes of work. Second, in terms of their job satisfaction, where it is associated with efforts to increase the willingness to work as *songket* weavers, fulfillment of daily needs in terms of food and clothing, physical safety at work, adequate wages, and the feeling of security. In terms of availability of raw materials should be adequate so that the production process is not hampered the *songket*. Similarly, in the process of production and distribution of *songket*, the company is also expected to have an adequate system in order to delay the goods to consumer can be reduced. Similarly, the management of the

store where *songket* stored for sale, store management is needed so as to allow smooth processing of the transaction can be realized as well as possible.

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