



THE ROLE OF INTRINSIC AND EXTRINSIC MOTIVATION IN MEDIATING THE EFFECT OF FINANCIAL COMPENSATION ON EMPLOYEE PERFORMANCE (A STUDY AT THE TERNATE CITY EDUCATION OFFICE)

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ABSTRAK

Penelitian ini bertujuan untuk mengkaji dan menganalisis peran motivasi intrinsik dan ekstrinsik dalam memediasi pengaruh kompensasi finansial terhadap kinerja pegawai di Dinas Pendidikan Kota Ternate. Penelitian ini menggunakan pendekatan kuantitatif. Populasi dan sampel penelitian mencakup seluruh 74 pegawai negeri sipil (PNS) dan pegawai pemerintah dengan perjanjian kerja (PPPK) yang bekerja di lingkungan internal Dinas Pendidikan Kota Ternate, tidak termasuk guru sekolah. Teknik pengambilan sampel jenuh (sensus) diterapkan dalam penelitian ini. Pengolahan data dan analisis model struktural dilakukan menggunakan SEM-PLS melalui perangkat lunak SmartPLS 4. Hasil empiris menunjukkan bahwa kompensasi finansial tidak memiliki pengaruh langsung yang signifikan terhadap kinerja pegawai, yang mengindikasikan adanya mekanisme mediasi penuh. Sebaliknya, kompensasi finansial secara signifikan meningkatkan motivasi intrinsik maupun ekstrinsik. Selain itu, baik motivasi intrinsik maupun ekstrinsik memberikan pengaruh positif dan signifikan terhadap kinerja pegawai, dengan motivasi intrinsik bertindak sebagai faktor pendorong yang paling dominan. Dengan demikian, motivasi intrinsik dan ekstrinsik memediasi secara penuh hubungan antara kompensasi finansial dan kinerja pegawai, yang membuktikan bahwa internalisasi psikologis merupakan hal esensial untuk mengubah insentif finansial menjadi hasil kerja operasional.

ABSTRACT

This study aims to examine and analyze the role of intrinsic and extrinsic motivation in mediating the effect of financial compensation on employee performance at the Education Office of Ternate City. This research adopts a quantitative approach. The population and sample consisted of all 74 civil servants (PNS) and government employees with employment agreements (PPPK) working within the internal office of the Education Office of Ternate City, excluding school teachers. A saturation sampling (census) technique was applied. Data processing and structural model analysis were executed using Structural Equation Modeling based on Partial Least Squares (SEM-PLS) via SmartPLS 4. The empirical results reveal that financial compensation does not have a direct significant effect on employee performance, indicating a full mediation mechanism. Conversely, financial compensation significantly enhances both intrinsic and extrinsic motivation. Furthermore, both intrinsic and extrinsic motivation exert a positive and significant effect on employee performance, with intrinsic motivation acting as the most dominant driver. Consequently, both intrinsic and extrinsic motivation fully mediate the relationship between financial compensation and employee performance, proving that psychological internalizations are essential to translate financial incentives into operational output.

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INTRODUCTION

In the context of the State Civil Apparatus (ASN), employee performance carries far greater consequences as it directly relates to public accountability and the quality of public services. Public sector organizations rely on service excellence, where success is fundamentally determined by high-quality human resources capable of achieving targets, executing programs effectively, and adapting to dynamic environments. The inability to attain optimal performance in government institutions leads not only to financial losses but also demonstrates a failure in executing public service responsibilities.

Improving human resource quality is expected to significantly enhance employee performance. Creating high performance within public institutions requires a thorough understanding of underlying factors, particularly those directly connected to bureaucratic reward systems. ASN performance evaluation is conducted by assessing organizational performance achievement, as regulated in PERMENPAN RB No. 6 of 2022. However, performance evaluation serves as an assessment tool, whereas performance itself is driven by internal and external determinants, including financial compensation.

Financial compensation encompasses basic salary, incentives, and allowances provided in monetary form. It is widely believed to affect performance by enhancing employee satisfaction, loyalty, and willingness to exert extra effort. Nevertheless, previous empirical studies yield inconsistent results. Research by Handoko (2016) and Prasetyo (2023) indicates a positive and significant impact of financial compensation on performance. Conversely, studies by Ramadhan (2024) and Sari (2025) reveal that financial compensation lacks a direct significant effect on performance when employees exhibit high Public Service Motivation (PSM), suggesting the necessity of mediating mechanisms.

These contradictory findings highlight the existence of psychological mechanisms bridging financial compensation and employee performance, specifically work motivation. According to Self-Determination Theory (SDT) by Deci & Ryan (2000), work motivation operates through two distinct pathways: intrinsic motivation (internal drives such as responsibility and task meaningfulness) and extrinsic motivation (drives originating from external rewards). This study is grounded in the empirical context of the Education Office of Ternate City, which experienced arrears in Employee Income Supplement payments for three consecutive months in early 2026, as well as performance evaluation notes regarding delayed DAK execution. Therefore, this study aims to examine the dual-mediating role of intrinsic and extrinsic motivation in the relationship between financial compensation and employee performance at the Education Office of Ternate City.

LITERATURE REVIEW

Self-Determination Theory

Self-Determination Theory (SDT), developed by Deci and Ryan (2000), emphasizes that motivation depends on the quality of motivation rather than its sheer quantity. The theory distinguishes between intrinsic motivation (doing an activity for its inherent satisfaction) and extrinsic motivation (doing an activity to attain separable outcomes). SDT posits that fulfilling three basic psychological needs—autonomy, competence, and relatedness—enhances intrinsic motivation and positive work behaviors. In the context of financial compensation, monetary rewards administered fairly and transparently reinforce feelings of competence and appreciation. Conversely, when rewards are perceived as controlling, a crowding-out effect occurs, undermining intrinsic motivation.

Financial Compensation

Financial compensation encompasses all forms of monetary remuneration received by employees, whether directly or indirectly. It is categorized into two main types: direct compensation—such as base salary, bonuses, and incentives—and indirect compensation, including health benefits, pension funds, and insurance (Handoko, 2016). Darmawan and Wibawa (2019) argue that financial compensation in the public sector is closely linked to reward schemes based on the achievement of administrative work outputs. Compensation indicators must be precisely aligned with the regulatory framework for Additional Employee Income, which is based on the electronic performance system. According to Milkovich and Newman (2008), the effectiveness of financial compensation does not depend solely on the salary amount provided, but rather on how the compensation system is designed and implemented. A compensation system is considered effective if it attracts, retains, and motivates employees while remaining aligned with organizational strategy. An effective system must be internally equitable, externally competitive, and transparent, while also enhancing both individual and organizational performance. Thus, compensation serves not merely as a form of remuneration but also as a strategic tool in human resource management. Research by Susilo and Zendrato (2025) confirms that compensation has a significant direct impact on the achievement of work targets, as well as on intrinsic and extrinsic motivation.

H1: Financial compensation positively affects employee performance

H2: Financial compensation positively affects intrinsic motivation

H3: Financial compensation positively affects extrinsic motivation

Work Motivation

Work motivation is an internal drive that compels an individual to behave and work earnestly in accordance with their duties and responsibilities. An employee's work spirit positively impacts their performance outcomes (Nadiyah & Astuti, 2021). Conceptually, distinguishing between intrinsic and extrinsic dimensions of motivation is crucial in public administration. Intrinsic motivation originates within the individual, characterized by interest, enthusiasm, pleasure, commitment, personal values, and task meaningfulness (Trépanier et al., 2023). This type of motivation arises because the work is perceived as capable of fulfilling personal needs, providing a sense of satisfaction, facilitating the achievement of specific goals, and fostering positive expectations for the future. For instance, a worker might demonstrate high dedication because they view their job as a means to optimally actualize and realize their potential (Nawawi, 2001). In contrast, extrinsic motivation is driven by external factors aimed at securing rewards or avoiding negative consequences, measured by social recognition, avoiding criticism, social rewards, career advancement, job security, and financial rewards (Trépanier et al., 2023). This drive is typically linked to external rewards or consequences, such as high wages or salaries, prestigious positions, power, or praise. In other words, an individual may exhibit high work dedication due to the presence of these factors (Nawawi, 2001).

H4: Intrinsic motivation positively affects employee performance

H5: Extrinsic motivation positively affects employee performance

H6: Intrinsic motivation mediates the relationship between financial compensation and employee performance

H7: Extrinsic motivation mediates the relationship between financial compensation and employee performance

RESEARCH METHOD

This study employs an explanatory quantitative research design. The research was conducted at the internal office of the Education Office of Ternate City from May to July 2026. The target population comprised all 74 permanent administrative civil servants (PNS) and government contract staff (PPPK) in the internal office, excluding school teachers. A total saturation sampling (census) technique was adopted, utilizing all 74 employees as active respondents. Data collection was carried out using structured closed-ended questionnaires measured on a 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Data analysis was performed using Structural Equation Modeling based on Partial Least Squares (SEM-PLS) executed via SmartPLS version 4. Model evaluation followed a two-stage approach: evaluation of the measurement model (outer model) encompassing convergent validity, discriminant validity (Fornell-Larcker & HTMT criteria), and construct reliability (Cronbach's Alpha & Composite Reliability); followed

by evaluation of the structural model (inner model) including R-Square and path coefficients.

RESULTS AND DISCUSSION

Outer Model Evaluation

The measurement model evaluation was conducted to ensure that the indicators and constructs used in the study possessed adequate levels of validity and reliability. This assessment covered convergent validity, discriminant validity, and construct internal consistency based on outer loadings, AVE, Cronbach's alpha, composite reliability, and the Fornell-Larcker criterion. As shown in Table 1, all indicators exhibited outer loadings ranging from 0.718 to 0.949, exceeding the minimum threshold of 0.70. This indicates that each indicator adequately reflects its respective construct. The Average Variance Extracted (AVE) values for financial compensation (0.834), employee performance (0.690), intrinsic motivation (0.656), and extrinsic motivation (0.688) all exceeded 0.50. Consequently, each construct met the requirement for convergent validity, as it explained more than 50% of the variance in its indicators. Furthermore, Cronbach's alpha values ranged from 0.773 to 0.933, while composite reliability values ranged from 0.869 to 0.953. All these values surpassed the 0.70 threshold, demonstrating good internal consistency and reliability for each construct.

Table 1. Results of Validity and Reliability

Items	Loading	AVE	Cronbach's alpha	Composite reliability
Financial Compensation				
X1	0.880	0.834	0.933	0.953
X2	0.943			
X3	0.949			
X4	0.878			
Employee Performance				
Y3	0.769	0.690	0.773	0.869
Y4	0.872			
Y6	0.847			
Intrinsic Motivation				
Z1.1	0.849	0.656	0.868	0.904
Z1.2	0.885			
Z1.3	0.789			
Z1.4	0.797			
Z1.6	0.718			
Extrinsic Motivation				
Z2.1	0.803	0.688	0.911	0.930
Z2.2	0.856			
Z2.3	0.838			
Z2.4	0.789			
Z2.5	0.839			
Z2.6	0.848			

Additionally, based on Table 2, discriminant validity was evaluated using the Fornell-Larcker criterion. The square root

of the AVE values on the diagonal—specifically 0.913 for financial compensation, 0.830 for employee performance, 0.810 for intrinsic motivation, and 0.829 for extrinsic motivation—were higher than the correlations between the constructs. Therefore, each construct possesses distinct empirical characteristics and measures a specific concept. Overall, the measurement model satisfied the requirements for convergent validity, discriminant validity, and reliability, making it suitable for structural model evaluation and hypothesis testing.

Table 2. Results of Discriminant Validity

Constructs	(1)	(2)	(3)	(4)
(1) Financial Compensation	0.913			
(2) Employee Performance	0.414	0.830		
(3) Intrinsic Motivation	0.347	0.741	0.810	
(4) Extrinsic Motivation	0.638	0.582	0.511	0.829

Inner Model Evaluation

The structural model was evaluated by assessing the coefficient of determination (R^2), path coefficients, and the significance levels of the relationships between constructs. Based on Table 3, the test results indicate that financial compensation explains 12.0% of the variation in intrinsic motivation and 40.7% of the variation in extrinsic motivation, while financial compensation—combined with intrinsic and extrinsic motivation—explains 60.7% of the variation in employee performance. Thus, the model demonstrates relatively strong explanatory power regarding employee performance, with the remaining 39.3% explained by factors outside the research model.

Table 3. Hypothesis Testing

Path	Coefficients	P Values
Financial Compensation -> Employee Performance	0.051	0.584
Financial Compensation -> Intrinsic Motivation	0.347	0.006
Financial Compensation -> Extrinsic Motivation	0.638	0.000
Intrinsic Motivation -> Employee Performance	0.599	0.000
Extrinsic Motivation -> Employee Performance	0.244	0.025
Financial Compensation -> Intrinsic Motivation -> Employee Performance	0.155	0.033
Financial Compensation -> Extrinsic Motivation -> Employee Performance	0.208	0.014
R²:		
Intrinsic Motivation	= 0.120	
Extrinsic Motivation	= 0.407	
Employee Performance	= 0.607	

Furthermore, hypothesis testing results show that financial compensation does not have a significant direct effect on employee performance ($\beta = 0.051$; $p = 0.584$); consequently, the hypothesis regarding this direct relationship is not supported. Conversely, financial compensation has a positive and significant effect on both intrinsic motivation ($\beta = 0.347$; $p = 0.006$) and extrinsic motivation ($\beta = 0.638$; $p < 0.001$).

Intrinsic motivation also exerts a positive and significant influence on employee performance ($\beta = 0.599$; $p < 0.001$), as does extrinsic motivation ($\beta = 0.244$; $p = 0.025$). Moreover, tests of indirect effects reveal that intrinsic motivation significantly mediates the relationship between financial compensation and employee performance ($\beta = 0.155$; $p = 0.033$). Extrinsic motivation is also shown to mediate this relationship in a positive and significant manner ($\beta = 0.208$; $p = 0.014$).

Discussion

Research results indicate that financial compensation does not directly enhance employee performance. These findings suggest that the magnitude of financial compensation is not necessarily immediately followed by improvements in work quality, quantity, or efficiency. Employees may view compensation as an entitlement or a fair exchange for work performed, rather than as a factor that automatically drives them to perform better. Furthermore, performance is likely influenced by other factors, such as competence, the work environment, organizational support, leadership, workload, and career development opportunities. Therefore, the effectiveness of financial compensation in boosting performance depends on its ability to foster psychological conditions that encourage employees to exert optimal effort.

Financial compensation has been shown to have a positive effect on intrinsic motivation. These results indicate that providing rewards that are fair, equitable, and commensurate with employee contributions can enhance feelings of being valued, recognized, and trusted by the organization. Such perceptions can reinforce satisfaction derived from the work itself—such as enjoyment, a sense of meaning, responsibility, and pride in achievements. Thus, although intrinsic motivation fundamentally originates from within the individual, compensation practices perceived positively can create conditions that foster an internal drive to perform better.

Financial compensation also exerts a stronger positive influence on extrinsic motivation. This is understandable, as salaries, incentives, bonuses, and allowances constitute external rewards that provide direct economic benefits to employees. When these rewards are clearly linked to responsibilities, achievements, and work outcomes, employees are motivated to increase their efforts to obtain or retain them. The higher path coefficient for extrinsic motivation compared to intrinsic motivation suggests that the primary function of financial compensation in this study is to serve as an external stimulus driving work behavior.

Finally, intrinsic motivation was found to enhance employee performance and exert a stronger direct influence than extrinsic motivation. Employees who enjoy their work, find meaning in their tasks, and derive satisfaction from their achievements tend to demonstrate higher levels of engagement, persistence, creativity, and work quality. Such internally driven motivation is also relatively more sustainable, as it does not rely entirely on

external rewards. These findings underscore that enhancing performance requires not only addressing imbalances effectively but also providing work that is engaging, challenging, and meaningful, while allowing employees to utilize their skills and assume responsibility.

Extrinsic motivation also positively influences employee performance. External incentives can clarify the link between effort and outcomes, thereby encouraging employees to meet targets, boost productivity, and adhere to work standards. Although its impact may be less pronounced than that of intrinsic motivation, extrinsic motivation remains a crucial mechanism—particularly in roles where achievements are measurable and linked to reward systems. However, organizations must ensure that compensation is administered fairly, transparently, and consistently so that it is perceived as a reward for contribution rather than merely a tool for control.

Mediation analysis results indicate that both intrinsic and extrinsic motivation serve as mechanisms linking financial redress to employee performance. The lack of a significant direct relationship, combined with significant indirect effects, points to full mediation. This implies that financial resolution improves performance only when it successfully stimulates both the internal drive and external motivation of employees. While the direct impact of intrinsic motivation on performance is stronger, the indirect effect via extrinsic motivation is greater, as financial improvements exert a powerful initial influence on extrinsic motivation. Overall, these findings confirm that compensation systems should be designed not only to meet economic needs but also to foster recognition, satisfaction, and a sense of meaning, while encouraging employees to deliver their best performance.

CONCLUSION

Based on the research findings, it can be concluded that financial compensation does not directly enhance employee performance; rather, it exerts a positive and significant influence through intrinsic and extrinsic motivation. Financial compensation strengthens both forms of motivation, though it has a more pronounced effect on extrinsic motivation. Furthermore, both intrinsic and extrinsic motivation were found to improve employee performance, with intrinsic motivation exerting a stronger direct influence. Both types of motivation act as full mediators in the relationship between financial compensation and employee performance. These findings underscore that financial compensation does not automatically yield higher performance; instead, it must first be translated into internal and external drives for employees. Consequently, organizations need to develop compensation systems that are fair, transparent, and contribution-based, while integrating them with meaningful work, recognition, autonomy, and development opportunities to foster motivation and sustainably enhance performance.

This study has several limitations that offer a basis for future research. First, the use of a cross-sectional design means

the data reflects respondents' perceptions at a single point in time, preventing an analysis of changes in motivation and performance over time or the confirmation of causal relationships between constructs. Future studies are advised to employ longitudinal or experimental designs to observe these changes more accurately. Second, data collection relied on self-administered questionnaires, creating a potential for common method bias and social desirability bias. Subsequent studies could utilize alternative data sources, such as supervisor performance appraisals, objective performance data, and organizational compensation records. Third, the research model explains performance solely through intrinsic and extrinsic motivation, whereas employee performance can also be influenced by factors such as leadership, the work environment, job satisfaction, work engagement, competence, and organizational support. Future research could incorporate these variables as additional mediators, moderators, or predictors.

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