

ABSTRACT

Employee performance is a crucial factor in determining the productivity and success of a company, especially in the manufacturing industry such as palm oil mills. Two aspects believed to have a significant impact on employee performance are compensation and work environment. Therefore, it is important to understand the extent to which these two aspects are implemented and how they affect employee performance within the company.

This study aims to identify the levels of compensation, work environment, and employee performance at PT XYZ's mill. Additionally, the study analyzes the influence of compensation and work environment on employee performance. The research employs a quantitative approach using questionnaires as the data collection method. The sample consists of 92 employees from six divisions, selected through a saturated sampling technique.

The collected data were analyzed using Structural Equation Modeling based on Partial Least Squares (PLS). The results indicate that compensation falls into the good category with a score of 75%, primarily supported by adequate salaries and allowances, although the bonus system requires further evaluation. The work environment is also rated as good with a score of 75%, with interpersonal relationships and physical facilities receiving high scores; however, noise and odor in the workspace remain problematic. Overall, employee performance is categorized as good with a score of 80%, particularly in terms of work quality and attendance discipline, though adherence to work standards still needs improvement.

Hypothesis testing shows that compensation has a positive but not significant effect on employee performance ($p\text{-value} = 0.070$), while the work environment has a positive and significant effect ($p\text{-value} = 0.024$). These findings suggest that improving the quality of the work environment can significantly enhance employee performance.

This study contributes to the company's understanding of factors influencing employee performance. Therefore, it is recommended that the company continue to improve work environment conditions and review the compensation system, particularly in terms of transparency and the bonus system, to optimally increase employee motivation and work performance.

Keywords: *Compensation, Work Environment, Employee Performance, PLS, Palm Oil Mil.*