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Job Satisfaction, Compensation, and Motivation as Drivers of Employee Loyalty in a Timor Leste Ministry

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Abstract

Purpose: This study examines the direct effects of job satisfaction, compensation, and motivation on employee loyalty at the Coordinating Ministry for Economic Affairs of Timor Leste, in response to public sector challenges related to employee retention, career sustainability, compensation fairness, and institutional commitment.

Research Methodology: A quantitative explanatory and cross sectional design was applied using a census of 35 employees. Data were collected through a structured five point Likert scale questionnaire and analyzed using Partial Least Squares Structural Equation Modeling (PLS SEM) in SmartPLS.

Results: The measurement model showed adequate reliability and convergent validity. Job satisfaction (β=0.702, p=0.023) and compensation (β=0.543, p=0.011) have significant positive effects on employee loyalty, whereas motivation has a positive but nonsignificant effect (β=0.027, p=0.665). The three constructs jointly explain 61.1% of the variance in loyalty.

Conclusions: Employee loyalty in the ministry is shaped more strongly by the quality of work experience and the perceived fairness of rewards than by general motivational conditions.

Limitations: The study relies on a small census of one ministry, a cross sectional design, and self reported data.

Contributions: The study explains loyalty as an outcome of satisfaction and compensation in a small ministerial setting and offers guidance on career clarity, fair rewards, supervisor support, and targeted motivation programs.

Keywords: *Compensation, Employee Loyalty, Job Satisfaction, Motivation, Public Sector*

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1. Introduction

Human resource management is central to public sector capability because ministries must translate policy mandates into coordinated action, administrative reliability, and responsive service (Armstrong & Taylor, 2020). Public organizations depend on employees who remain, accumulate institutional knowledge, and contribute beyond formal duties, so the ability to retain and engage staff is a strategic capability rather than an administrative routine (Kravariti & Johnston, 2020). Research on employee turnover shows that the departure of experienced staff disrupts operations, increases replacement costs, and erodes tacit knowledge, and that the antecedents of staying and leaving are both attitudinal and structural (Hom, Lee, Shaw, & Hausknecht, 2017; Rubenstein, Eberly, Lee, & Mitchell, 2018).

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In Timor Leste, the public administration faces continuing pressure to improve bureaucratic effectiveness, workforce regeneration, and employee commitment. Government assessments indicate that the civil service has a large workforce and ongoing reform needs, including human resource planning, career structures, and institutional capacity building (Government, 2025). These conditions make employee loyalty a strategic issue rather than merely a personal attitude. The Coordinating Ministry for Economic Affairs has a particularly important role because it supports coordination across economic policy areas, and its employees are expected to provide administrative accuracy, interagency coordination, and continuity of institutional knowledge. When loyalty is weak, the ministry may face turnover intentions, reduced willingness to contribute beyond formal duties, and loss of tacit knowledge, and in a small institution even a limited decline in loyalty can disrupt coordination because each employee tends to carry specialized responsibilities.

Job satisfaction, compensation, and motivation are frequently discussed as antecedents of loyalty. Job satisfaction reflects employees' evaluation of whether their work, promotion opportunities, supervisor support, peer relations, and emotional experiences are positive (Judge, Weiss, & Hulin, 2017). Compensation reflects the perceived fairness of salary, incentives, and allowances (Milhem, Ateeq, Alzoraiki, Husain, & Alastal, 2024). Motivation represents the internal and external forces that direct effort toward organizational goals (Deci, Olafsen, & Ryan, 2017). Prior studies generally suggest positive relationships among these variables, yet public sector evidence remains context dependent, because formal rules, limited career mobility, and standardized compensation systems can shape employee perceptions differently from private organizations (Ritz, Brewer, & Neumann, 2016).

The research gap addressed in this study is the limited empirical explanation of employee loyalty in a small ministerial organization in Timor Leste. Many loyalty and retention studies examine private firms or large public agencies (Ateeq, Alzoraiki, Milhem, & Al, 2023), whereas this study focuses on a national economic coordination institution operating within an emerging public administration reform context. The study therefore pursues two objectives. The first is to examine whether job satisfaction, compensation, and motivation directly influence employee loyalty. The second is to identify which antecedent provides the strongest practical signal for retention oriented human resource management. Theoretically, the study contributes to public sector human resource management by explaining loyalty as an attitudinal outcome of exchange quality, and practically it provides evidence that can guide career, reward, and motivation policies in the ministry.

2. Literature Review and Hypothesis/es Development

2.1 Social Exchange Theory

Social exchange theory provides the main theoretical lens of this study. The theory proposes that relationships between employees and organizations are built on reciprocal exchanges, in which favorable treatment from the organization creates a felt obligation that employees repay through positive attitudes and behaviors (Cropanzano et al., 2017). A meta analysis of organizational support theory confirms that employees who perceive that the organization values their contributions and cares about their well being show higher job satisfaction, stronger affective commitment, and lower withdrawal (Kurtessis et al., 2017). In this view, loyalty is not simply a personal trait but an outcome of the quality of the exchange relationship.

The job demands resources model complements this perspective by explaining how job resources such as supervisor support, recognition, and development opportunities foster engagement and commitment, whereas excessive demands without adequate resources lead to strain and withdrawal (Bakker & Demerouti, 2017). Together, these theories suggest that job satisfaction and compensation, which represent concrete evidence of favorable treatment and adequate resources, should strengthen loyalty, while motivation should contribute to loyalty when it is supported by institutional conditions that allow employees to fulfill their needs. In the public sector, these exchanges are also shaped by public service values and by confidence that the institution treats employees fairly (Ritz et al., 2016).

2.2 Employee Loyalty

Employee loyalty refers to employees' willingness to remain with an organization, obey institutional rules, accept responsibility, contribute ideas, and protect the integrity of work processes. Loyalty is not limited to length of service but includes affective attachment, normative responsibility, and behavioral willingness to support organizational objectives. Commitment research shows that employees combine affective, normative, and continuance forms of attachment in different profiles, and that profiles dominated by affective and normative commitment are associated with the most favorable outcomes (Meyer & Morin, 2016). Loyal employees tend to perform better, share knowledge, and remain longer, so loyalty is an important outcome for organizations that depend on continuity (Ateeq, Alzoraiki, Milhem, & Al, 2023).

Research on voluntary turnover identifies job attitudes, organizational support, rewards, and career opportunities as key antecedents of staying (Lee, Hom, Eberly, Li, & Mitchell, 2017; Rubenstein, Eberly, Lee, & Mitchell, 2018). In public sector settings, career growth and organizational commitment have been found to reduce turnover intention (Al, Thumiki, Nawaz, Jurcic, & Gajenderan, 2022), and studies in developing countries show that job satisfaction and organizational commitment are among the strongest predictors of the intention to stay (Ate, Zaineldeen, & Awaad, 2024). Retention can also be strengthened through engagement and favorable working arrangements (Alzoraiki, Merza, Ateeq, & Milhem, 2024). These findings suggest that loyalty in a public ministry should be explained by the combination of work experience, rewards, and motivation that employees perceive.

2.3 Job Satisfaction

Job satisfaction is a psychological evaluation of work experience that combines cognitive judgments and affective reactions toward the job (Judge, Weiss, & Hulin, 2017). Employees who feel proud to belong to an institution, perceive promotion opportunities, receive attention from supervisors, and experience supportive colleagues are more likely to develop durable attachment. Satisfaction is closely related to employee performance and engagement (Riyanto, Endri, & Herlisha, 2021), and trust in leaders strengthens the link between leadership and performance, which highlights the importance of supervisor relationships (Legood, van der Werff, Lee, & Den, 2021). Satisfaction may strengthen loyalty because employees interpret positive experiences as evidence that the organization values them (Kurtessis, Eisenberger, Ford, Buffardi, Stewart, & Adis, 2017).

Empirical studies support this reasoning. Job satisfaction has been found to mediate the relationship between loyalty and job performance (Ateeq, Alzoraiki, Milhem, & Al, 2023), and satisfaction and commitment consistently reduce the intention to leave in both private and public organizations (Ate, Zaineldeen, & Awaad, 2024; Hom, Lee, Shaw, & Hausknecht, 2017). In the ministry context, where the work requires coordination, trust, and continuity across administrative functions, satisfaction with work, supervision, and colleagues is expected to be an important foundation of loyalty. The first hypothesis is therefore proposed as follows.

H_1: Job satisfaction has a positive and significant effect on employee loyalty.

2.4 Compensation

Compensation is a formal reward system that includes salary, incentives, and allowances (Armstrong & Taylor, 2020). Fair compensation signals recognition of employee contributions and helps meet economic needs. In public organizations, compensation is not only an individual benefit but also a symbol of procedural fairness and institutional appreciation, even when its level is constrained by civil service regulations (OECD, 2020). Employees evaluate whether their pay, incentives, and allowances are aligned with their position, performance, and workload, and these judgments shape their attitudes toward the organization.

Research shows that compensation and the work environment significantly affect job satisfaction (Milhem, Ateeq, Alzoraiki, Husain, & Alastal, 2024) and that rewards are among the antecedents of

retention identified in turnover meta analyses (Rubenstein, Eberly, Lee, & Mitchell, 2018). From the perspective of social exchange theory, fair compensation is a tangible form of favorable treatment that employees reciprocate through loyalty (Cropanzano, Anthony, Daniels, & Hall, 2017). Talent management research in the public sector also emphasizes that fair recognition and development support are critical for retaining capable employees (Kravariti, Tasoulis, Scullion, & Alali, 2023; Mensah, 2019). Employees who perceive compensation as appropriate to their level, workload, and performance are therefore more likely to maintain loyalty. The second hypothesis is proposed as follows.

H_2: Compensation has a positive and significant effect on employee loyalty.

2.5 Motivation

Motivation refers to the direction, intensity, and persistence of work related effort (Kanfer, Frese, & Johnson, 2017). It can arise from physiological security, safety, peer support, recognition, and development opportunities. Self determination theory distinguishes autonomous motivation, which arises from interest and identification with work values, from controlled motivation, which arises from external pressure or rewards, and shows that autonomous motivation is more strongly associated with well being, performance, and commitment (Deci, Olafsen, & Ryan, 2017; Van, Howard, Leroy, & Gagné, 2021). Future work arrangements also depend on designs that satisfy employees' needs for autonomy, competence, and relatedness (Gagné, Parker, Griffin, Dunlop, Knight, Klonek, & Parent, 2022).

Motivation is expected to support loyalty because motivated employees are more likely to find value in their work and a future in the institution. In public organizations, public service motivation can further strengthen attachment to the organization's mission (Ritz, Brewer, & Neumann, 2016). However, motivation may not automatically become loyalty when it is not supported by clear career systems, fair compensation, or development opportunities, because employees who are motivated but see no path for growth may direct their effort elsewhere (Kwon & Jang, 2022). The third hypothesis is proposed as follows.

H_3: Motivation has a positive and significant effect on employee loyalty.

The research model that integrates these three hypotheses is presented in Figure 1.

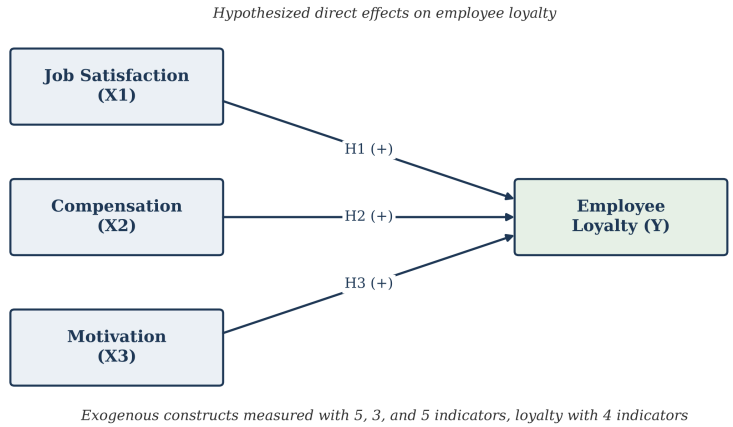


Figure 1. Research model

Figure 1 shows the research model, in which job satisfaction (X_1), compensation (X_2), and motivation (X_3) are the exogenous constructs and employee loyalty (Y) is the endogenous construct. Each arrow represents a hypothesized positive direct effect, namely H_1 from job satisfaction, H_2 from compensation, and H_3 from motivation to loyalty. The model reflects the social exchange view that concrete experiences of favorable treatment, in the form of satisfying work and fair rewards, and the motivational energy that employees bring to their work jointly shape their willingness to remain with

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and support the ministry (Cropanzano, Anthony, Daniels, & Hall, 2017). The note at the bottom indicates that the exogenous constructs are measured with five, three, and five indicators, respectively, and loyalty with four indicators.

3. Research Methodology

3.1 Research Design, Population, and Sample

This study used a quantitative explanatory and cross sectional design. The research setting was the Coordinating Ministry for Economic Affairs of Timor Leste, and the unit of analysis was the individual employee. The population consisted of 35 employees, and total sampling was applied because the population was small, identifiable, and fully accessible. This census approach is appropriate for organizational diagnosis because it represents the whole study population, although it does not automatically generalize to other ministries. Because the sample is small, the minimum detectable effect is relatively large, since the inverse square root method indicates that a sample of 35 provides adequate power mainly for path coefficients of about 0.42 or larger at the 5% significance level (Kock & Hadaya, 2018).

3.2 Measurement Instrument

Primary data were collected through a structured questionnaire using a five point Likert response scale ranging from strongly disagree to strongly agree. The exogenous constructs were job satisfaction, compensation, and motivation, and the endogenous construct was employee loyalty. The constructs and their indicators are presented in Table 1.

Table 1. Constructs and measurement indicators

Construct	Number of Indicators	Indicators
Job satisfaction (X_1)	5	Pride in the organization, sufficiency of income, promotion opportunity, supervisor attention, and coworker support
Compensation (X_2)	3	Suitability of compensation to level, incentives to performance, and allowances to workload
Motivation (X_3)	5	Physical needs, safety, social support, recognition, and development opportunity
Employee loyalty (Y)	4	Compliance with rules, responsibility, willingness to contribute ideas, and honesty

Table 1 shows that the model contains four reflective constructs measured with a total of 17 indicators. Job satisfaction captures both the emotional and practical sides of work experience, from pride in the organization to supervisor attention and coworker support, which correspond to the job attitudes described by Judge et al. (2017). Compensation focuses on perceived fairness, namely whether pay, incentives, and allowances match the employee's level, performance, and workload. Motivation follows a needs based structure, ranging from physical and safety needs to social support, recognition, and development, while loyalty combines behavioral elements such as compliance and responsibility with attitudinal elements such as willingness to contribute ideas and honesty.

3.3 Data Analysis

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS SEM) with SmartPLS. PLS SEM was selected because it is suited to prediction oriented models, small samples, and data that do not meet strict distributional assumptions (Hair, Risher, Sarstedt, & Ringle, 2019; Hair, Hult, Ringle, & Sarstedt, 2022). The measurement model was assessed through indicator loadings, Average Variance Extracted (AVE), Cronbach's alpha, and Composite Reliability (CR), following the recommended thresholds of 0.70 for loadings and reliability and 0.50 for AVE (Hair et

al., 2019). The structural model was evaluated using the coefficient of determination (R^2), path coefficients, t statistics, and p values obtained through bootstrapping, and a relationship was considered significant when the p value was below 0.05 (Sarstedt, Hair, Pick, Liengaard, Radomir, & Ringle, 2022). The analysis followed a prediction oriented logic because the model sought to explain loyalty in a small public sector population (Shmueli, Sarstedt, Hair, Cheah, Ting, Vaithilingam, & Ringle, 2019).

4. Results and Discussions

4.1 Respondent Profile

Table 2. Respondent profile (n = 35)

Characteristic	Category	Percentage
Gender	Female	65.7%
	Male	34.3%
Education	Bachelor degree	71.4%
	Master or doctoral degree	20.0%
	Other	8.6%
Age	Most respondents older than 35 years	Majority
Length of service	Largest group more than ten years	Largest group

Table 2 shows that women represented 65.7% of the respondents and men 34.3%. Educationally, 71.4% held a bachelor's degree and 20.0% held a master's or doctoral degree, while the remaining 8.6% had other educational backgrounds. Most respondents were older than 35 years, and the largest group had worked in the ministry for more than ten years. These characteristics indicate that the respondents were well educated and had substantial work and institutional experience, which means that their perceptions of satisfaction, compensation, motivation, and loyalty were grounded in long term exposure to the ministry rather than in short term impressions. At the same time, the dominance of long serving employees suggests that the sample may reflect the views of those who have already chosen to stay, which should be considered when interpreting the results.

4.2 Measurement Model Evaluation

The measurement model was evaluated for reliability and convergent validity. The results are presented in Table 3.

Table 3. Measurement model reliability and convergent validity

Construct	Indicators	Loading Range	AVE	Cronbach alpha	CR
Job satisfaction	5	0.680 to 0.882	0.604	0.835	0.883
Compensation	3	0.778 to 0.967	0.792	0.870	0.919
Motivation	5	0.681 to 0.823	0.587	0.823	0.876
Employee loyalty	4	0.844 to 0.948	0.821	0.927	0.948

Table 3 shows that the measurement model meets the minimum requirements for reliability and convergent validity. Indicator loadings range from 0.680 to 0.882 for job satisfaction, 0.778 to 0.967 for compensation, 0.681 to 0.823 for motivation, and 0.844 to 0.948 for loyalty. The lowest loadings of job satisfaction and motivation are slightly below 0.70, but they can be retained because the AVE and composite reliability of their constructs exceed the recommended thresholds (Hair et al., 2019). AVE values range from 0.587 for motivation to 0.821 for loyalty, all above 0.50, which confirms that each construct explains more than half of the variance in its indicators. Cronbach's alpha ranges from 0.823 to 0.927 and composite reliability from 0.876 to 0.948, all above 0.70, which indicates strong internal consistency. Loyalty shows the strongest measurement quality, which suggests that respondents interpreted its indicators consistently. These results support the use of the measures in structural testing.

4.3 Structural Model and Hypothesis Testing

The R^2 for employee loyalty was 0.611, meaning that job satisfaction, compensation, and motivation jointly explain 61.1% of the variance in loyalty, which indicates moderate to substantial explanatory power for a small ministerial population (Hair et al., 2019). The results of hypothesis testing are presented in Table 4.

Table 4. Direct effects on employee loyalty

Path	*β*	*t* statistic	*p* value	Decision
H_1. Job satisfaction → Loyalty	0.702	2.276	0.023	Supported
H_2. Compensation → Loyalty	0.543	3.213	0.011	Supported
H_3. Motivation → Loyalty	0.027	0.087	0.665	Not supported

Table 4 shows that job satisfaction has a positive and significant effect on loyalty (β=0.702, t=2.276, p=0.023), so H_1 is supported. Compensation also has a positive and significant effect (β=0.543, t=3.213, p=0.011), so H_2 is supported. Motivation has a positive but nonsignificant effect (β=0.027, t=0.087, p=0.665), so H_3 is not supported. Job satisfaction shows the largest coefficient, while compensation shows the highest t statistic, which indicates that its effect is estimated with the greatest precision. The near zero coefficient of motivation indicates that, once satisfaction and compensation are considered, motivation adds almost no unique explanation of loyalty. The table therefore shows that loyalty in this setting is more strongly related to employees' work experience and perceived reward fairness than to general motivational conditions. The estimated structural model is presented in Figure 2.

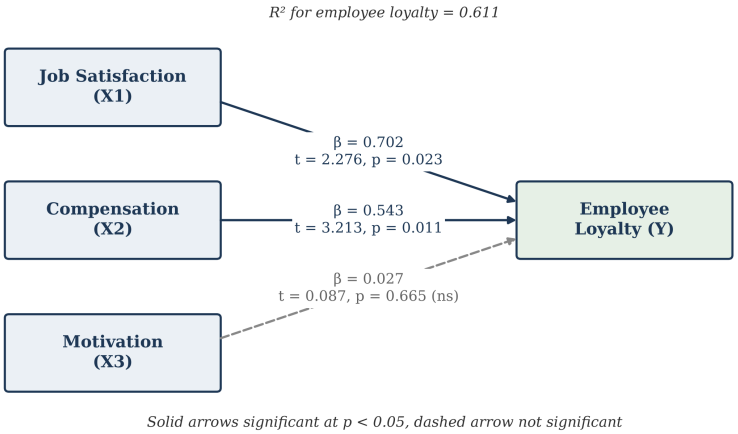


Figure 2. Structural model results

Figure 2 presents the estimated path coefficients together with their t statistics and p values and the R^2 of employee loyalty. The two solid arrows from job satisfaction and compensation show the significant paths, while the dashed arrow from motivation shows the nonsignificant path. The figure makes visible that most of the explained variance in loyalty, 61.1% in total, is carried by the two constructs that represent concrete experiences of the employment relationship, namely satisfying work and fair rewards. It also shows that the coefficient of motivation is far below the effect size that a sample of 35 can reliably detect, so the nonsignificant result may partly reflect limited statistical power as well as a genuinely weak effect (Kock & Hadaya, 2018).

4.4 Discussion

The significant effect of job satisfaction on loyalty confirms that loyalty is built through daily work experience. Employees are more likely to remain committed when they feel proud to belong to the institution, receive adequate supervisory attention, and perceive opportunities for progression. This finding is consistent with social exchange theory, because employees who receive positive relational

and developmental signals from the organization reciprocate with stronger attachment (Cropanzano, Anthony, Daniels, & Hall, 2017). It also agrees with research showing that job satisfaction is closely linked to loyalty and performance (Riyanto, Endri, & Herlisha, 2021) and that satisfaction reduces turnover intention in developing country organizations (Ate, Zaineldeen, & Awaad, 2024). In the ministry context, job satisfaction may be particularly important because the work requires coordination, trust, and continuity across administrative functions, and trust in supervisors is known to strengthen the effects of leadership (Legood, van der Werff, Lee, & Den, 2021).

The significant effect of compensation on loyalty highlights the central role of perceived reward fairness. Compensation is often constrained by public sector rules, but employees still evaluate whether pay, incentives, and allowances are aligned with their level, performance, and workload. A fair compensation system can reduce insecurity and strengthen employees' belief that the institution values their contribution (Milhem, Ateeq, Alzoraiki, Husain, & Alastal, 2024). The result does not imply that loyalty can be purchased only through financial rewards. Rather, compensation becomes a visible institutional signal that must be consistent with workload, responsibilities, and public service expectations, in line with turnover research identifying rewards as one of several antecedents of staying (Rubenstein, Eberly, Lee, & Mitchell, 2018).

The nonsignificant effect of motivation requires careful interpretation. Motivation is not irrelevant, but the data suggest that motivation alone is insufficient to create loyalty when the institution does not simultaneously provide satisfying work experiences and credible rewards. Employees may feel motivated by safety, social support, recognition, and development opportunities, yet such motivation may remain episodic if it is not institutionalized into career pathways, meaningful feedback, or transparent reward mechanisms (Kwon & Jang, 2022). This interpretation is consistent with self determination theory, which emphasizes that sustained conditions supporting autonomous motivation and basic psychological needs are required for motivation to translate into lasting attitudes (Deci, Olafsen, & Ryan, 2017; Van, Howard, Leroy, & Gagné, 2021). In addition, the motivation indicators in this study are largely needs based, so they may overlap with the satisfaction and compensation constructs, which could reduce the unique contribution of motivation in the model.

Theoretically, the findings clarify that loyalty should be understood as an outcome of exchange quality rather than a simple result of individual enthusiasm. Job satisfaction and compensation represent concrete employee experiences, while motivation reflects broader energy and needs, and in this model concrete experience has the stronger explanatory role (Bakker & Demerouti, 2017). For public sector human resource management, this means that retention policy should integrate affective, economic, and developmental elements rather than treat loyalty as a personal obligation of employees (Kravariti & Johnston, 2020). Practically, the ministry can strengthen loyalty by communicating career paths clearly, ensuring that compensation and allowances are transparently linked to level, performance, and workload, training supervisors to provide regular attention and feedback, and designing motivation programs, such as recognition and development opportunities, that are connected to concrete career and reward outcomes (Mensah, 2019).

5. Conclusions

This study concludes that job satisfaction and compensation significantly improve employee loyalty at the Coordinating Ministry for Economic Affairs of Timor Leste, while motivation has a positive but nonsignificant direct effect. Job satisfaction shows the largest effect, compensation shows the most precisely estimated effect, and the three constructs together explain 61.1% of the variance in loyalty. These results show that loyalty is not accidental but can be managed through the quality of work experience and the fairness of rewards. The study supports social exchange theory by showing that employees reciprocate satisfying work and fair compensation with stronger attachment, and it suggests that motivation must be translated into concrete career and reward systems before it can meaningfully strengthen loyalty.

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Author Contributions

IDARA contributed to the conceptualization of the study, research design, data collection, data analysis, and the writing, review, and revision of the manuscript. BRP contributed to the conceptualization of the study, research design, data collection, data analysis, and the writing, review, and revision of the manuscript.Both authors read and approved the final manuscript.

Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this article. The research was conducted independently and objectively, and the authors have no financial, commercial, or personal relationships with the Coordinating Ministry for Economic Affairs of Timor Leste or any other party that could have influenced the research design, data collection, data analysis, interpretation of results, or publication process.

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