

The Influence of Skills-Based Hiring and Income Levels on Employee Performance: The Mediating Role of Job Satisfaction

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ABSTRACT

Tax administration organizations play a key role in promoting economic development and fiscal sustainability by generating essential revenues for the state. This study analyzes the effect of skill-based recruitment and income level on employee performance, mediated by job satisfaction, among employees at the Banda Aceh Tax Office. Using a quantitative methodology, data were collected from 108 employees using a five-point Likert scale questionnaire distributed to employees. Relationship analysis was conducted using Structural Equation Modeling (SEM) with AMOS 24 software. The results show that skill-based recruitment positively and significantly impacts job satisfaction and performance. Income level also has a positive and significant impact on job satisfaction and JP. Job satisfaction positively affects performance. Notably, job satisfaction fully mediated the relationship between skill-based recruitment and performance, and partially mediated the relationship between income level and performance. These results reinforce the theory of talent management and economic incentives, highlighting how increased job satisfaction improves employee performance. Tax offices should prioritize skill-based recruitment and

competitive remuneration to optimize employee performance.

Keywords: Skills-based Hiring, Income Levels, Job Satisfaction, Employee Performance.

INTRODUCTION

Tax administration agencies play an important role in promoting economic development and maintaining fiscal sustainability through their strategic tasks of managing and collecting state revenue. Various studies have shown that economic activity contributes significantly to increased tax revenue, thereby emphasizing the importance of developing inclusive and sustainable economic activities (Egbunike et al., 2018; Onuoha et al., 2019). In addition, tax education and outreach efforts have been shown to have a positive effect on optimizing tax revenue (Onuoha et al., 2019).

Performance management is a continuous process of identifying, measuring, and developing individual and team performance while ensuring alignment between performance and the organization's strategic objectives. Performance management plays an important role in talent management, as it can create a more competent, committed, and motivated workforce, support organizational change

processes, clarify performance goals, differentiate between high and low performance, and help build fairer administrative procedures (Aguinis & Burgi-Tian, 2021). Personnel performance in an organization significantly impacts the overall effectiveness of the organization. Successful organizations understand that human resources are a key component that contributes directly to improving organizational performance (Alghamdi, 2021).

Skills-based recruitment is a recruitment approach that focuses on assessing specific abilities and competencies that match job requirements rather than simply formal educational background or traditional work experience (Bone et al., 2024). In this approach, organizations prioritize candidates' practical abilities to ensure suitability for the role, thereby opening up wider opportunities for diverse talent and minimizing bias in the selection process. This approach is becoming increasingly important in the era of digital transformation and sustainability, when certain skills, such as artificial intelligence and green jobs, are becoming essential (Bone et al., 2024; Sigelman et al., 2024).

Several studies have shown that skills-based hiring strategies have a positive and significant relationship with employee performance (Murfat et al., 2025; Shahzad et al., 2024). This approach is considered capable of improving the suitability of employee placement with the tasks assigned and strengthening talent retention (Dongre & Kanchan, 2025; Peterson et al., 2024). However, several other studies have found that the effect of skills-based hiring on employee performance is not always significant or depends on certain conditions, indicating a research gap or the possibility of moderation by other variables (Peterson et al., 2024; Sigelman et al., 2024). These findings confirm that although skills-based hiring has great potential, its practical implementation may not always produce the expected results.

Similarly, in the context of income levels, several studies show that compensation has a positive and significant effect on employee performance. Based on cognitive evaluation theory and equity theory, performance-based payment schemes can increase work motivation and produce better performance (Y. Chen et al., 2023; Said et al., 2015). However, other studies have revealed that income does not always have a direct and significant effect on performance, and the relationship between the two can be non-linear. For example, the efficiency of employees with a higher-than-average salary-to-contribution ratio may decline when the gap widens (Wen & Cai, 2024). Furthermore, the relationship between salary and job satisfaction is complex, as it is influenced by other factors, such as job happiness and overall satisfaction (Judge et al., 2010). The diversity of these findings indicates the need for further research on the context, moderating variables, and psychological mechanisms that explain the relationship between compensation and employee performance.

LITERATURE REVIEW

Skills-based hiring is a human resource management strategy that focuses on the planned and systematic identification, development, placement, and retention of high-potential employees (HPEs). This approach emphasizes a selection process that prioritizes abilities and competencies that match job requirements rather than traditional qualifications such as academic degrees or formal work history (Bone et al., 2024).

Key indicators in the implementation of skills-based recruitment include: (1) assessment of practical abilities and competencies in line with job requirements; (2) use of data analysis to project future skills needs; (3) identification and classification of transversal skills (soft skills), such as communication and adaptability; (4) implementing systematic changes in recruitment procedures, including the gradual reduction of academic

degree requirements; and (5) expanding the talent base through skills-based assessment rather than previous work experience (Bone et al., 2024; Siraj & Hågen, 2023; Yazdanian et al., 2022). This approach not only enhances inclusivity but also strengthens the organization's ability to respond to the ever-changing dynamics of the job market.

Income level is a comprehensive indicator that describes the amount of financial resources obtained by individuals or households in a certain period, usually after deducting taxes and social transfer payments. This indicator reflects the overall socioeconomic conditions and financial capacity (Galobardes et al., 2006). This concept is an important aspect of the study of social inequality because income level not only indicates purchasing power for goods and services but also affects access to health services, education, and various social opportunities. Variations in the definition or measurement of income level can lead to differences in the interpretation of social inequality (Shavers, 2007).

The income level indicators commonly used in epidemiological and socioeconomic research include five main components: (1) education level as an initial proxy for income potential; (2) social class based on employment status and occupational prestige; (3) actual household income measured continuously or categorically; (4) wealth or asset accumulation as an indicator of long-term financial stability; and (5) regional socioeconomic indicators, such as environmental poverty indices or access to basic facilities (Galobardes et al., 2006; Shavers, 2007). This approach provides a more comprehensive understanding of economic disparities and their impact on community welfare.

Job satisfaction refers to employees' subjective assessment of the extent to which their work meets their needs, desires, and expectations. Various factors can cause job dissatisfaction, including dissatisfaction with compensation and benefits (Munir & Rahman, 2016). Indicators of job

satisfaction generally include satisfaction with salary, promotion, the job itself, supervision, and co-workers (Mehrad, 2021). Empirical findings show a strong positive relationship between job satisfaction and employee performance in the nursing and other professional sectors, with widespread recognition of this relationship in various industries (Kosec et al., 2022).

Employee performance is a measure that describes the effectiveness and efficiency of individual contributions in achieving organizational goals and is generally evaluated through various key indicators as a basis for human resource development (Afrin et al., 2023). In human resource management studies, various assessment frameworks have been developed to identify performance indicators, covering quantitative aspects such as work results or output and qualitative aspects such as behavior and work attitude (Legman et al., 2023).

One approach that is widely used in determining employee performance indicators focuses on six main aspects through a systematic analysis of the factors that influence performance, thereby enabling a more comprehensive evaluation (Afrin et al., 2023). This approach is becoming increasingly relevant for organizations that implement continuous performance measurement, especially in the era of digital transformation, when metrics such as collaboration and adaptability are increasingly important (Al Montaser et al., 2025). The six key employee performance indicators are attendance, responsibility, teamwork, compliance, honesty, and initiative (Sari et al., 2024).

Hypothesis

A study of government agencies in Africa, Europe, and Southeast Asia shows that skills-based hiring practices and income levels have a significant relationship with job satisfaction and voluntary turnover intention. The implementation of a skills-based approach in the public sector has been

shown to reduce employment gaps and improve employee retention through fair compensation mechanisms (Pratama & Negoro, 2023). In Africa and Southeast Asia, income levels are the main predictor of turnover intention, mainly due to economic inequality, while in Europe, skills-based hiring is more focused on competency development to address labor shortages, which can generally increase job satisfaction by up to 20% (X. Chen et al., 2023). These findings emphasize the need for integrated policies to optimize both factors to improve workforce stability in the government sector. Based on the research objectives, the following hypotheses were formulated:

H1: Skills-based hiring positively affects employee job satisfaction at KPP Pratama Banda Aceh.

H2: Income level has a positive effect on employee job satisfaction at KPP Pratama in Banda Aceh.

H3: Skills-Based Hiring positively affects employee performance at KPP Pratama Banda Aceh.

H4: Income level has a positive effect on employee performance at KPP Pratama in Banda Aceh.

H5: Job satisfaction positively affects employee performance at KPP Pratama Banda Aceh.

H6: Job satisfaction mediates the relationship between skills-based hiring and employee performance at KPP Pratama in Banda Aceh.

H7: Job satisfaction mediates the relationship between income level and employee performance at KPP Pratama in Banda Aceh.

MATERIAL & METHODS

This quantitative study aimed to analyze the causal relationship between exogenous and endogenous variables through hypothesis testing. The variables examined include skill-based recruitment (X1), income level (X2), employee performance (Y), and job satisfaction (Z), which acts as a mediator. The research population included all 108 employees working at the Banda Aceh Tax Office.

The sample size in this study was determined based on the provisions of Structural Equation Modeling (SEM) analysis. Ferdinand (2002) suggested that the appropriate sample size for the maximum likelihood estimation method was between 100 and 200 respondents, which is five to ten times the number of parameters in the model or five to ten times the number of manifest variables (indicators) of all latent variables. This study used 21 indicators; therefore, based on these guidelines, the number of respondents required ranged from 105 to 210. Therefore, the researcher determined 108 respondents using a census technique to obtain more accurate results. The research instrument was a structured questionnaire with a 5-point Likert scale, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), which was used to measure the research variables.

Data analysis in this study was conducted using the Structural Equation Modeling (SEM) method through Amos 24 software. SEM is a set of statistical techniques that allows testing complex relationships between variables, including latent variables, which are constructs that cannot be measured directly and are represented by observable variables based on respondent responses.

RESULTS AND DISCUSSION

SEM Analysis

This study applied Confirmatory Factor Analysis (CFA) to assess the construct validity of exogenous and endogenous variables. The analysis results showed that the majority of indicators had factor loading values that met the validity criteria, except for IL2 indicator with values of 0.428, JS4 with 0.470, and EP3 with 0.556. Because these three indicators were below the minimum threshold of 0.60 used as the validity standard in CFA, IL2, JS4, and EP3 were excluded from the model (Baistaman et al., 2020). Thus, an indicator is considered valid if it has a factor loading value of greater than 0.60.

The goodness-of-fit results are presented in Table 1.

Table 1. Reliability and Validity Measures

No	Construct	Construct Reliability		Variance Extracted		Conclusion
		Cut-off (CR)	Acquisition (CR)	Cut-off (AVE)	Acquisition (AVE)	
1	Employee Performance	0.7	0.840	0.5	0.513	Valid/Reliable
2	Job Satisfaction	0.7	0.817	0.5	0.528	Valid/Reliable
3	Skills-based Hiring	0.7	0.833	0.5	0.501	Valid/Reliable
4	Income Levels	0.7	0.815	0.5	0.525	Valid/Reliable

Source: Research data, 2025.

Direct Effects

Table 2. Path Coefficients and Hypothesis Testing Results

Hypothesis Statement	Estimate	S.E.	C.R.	P
Job Satisfaction <--- Skills-based Hiring	0.213	0.105	1.999	0.046
Job Satisfaction <--- Income Levels	0.534	0.124	4.224	<0.001
Employee Performance <--- Skills-based Hiring	0.309	0.109	2.926	0.003
Employee Performance <--- Income Levels	0.296	0.132	2.298	0.022
Employee Performance <--- Job Satisfaction	0.331	0.142	2.435	0.015

Source: Research data, 2025.

Indirect Effects

Table 3. Mediation Hypothesis Testing Results

Hypothesis Statement	Estimate	Std. Error	Sobel test	p-value	Conclusions
Job satisfaction mediates between skills-based hiring and employee performance	0.071	0.046	1.530	0.125	Accepted (Full Mediation)
Job satisfaction mediates between income levels and employee performance	0.177	0.086	2.049	0.040	Accepted (Partial Mediation)

Source: Research data, 2025.

Model feasibility testing was conducted using the Structural Equation Modeling (SEM) approach to obtain a model that meets the Goodness of Fit (GOF) criteria. The GOF test results show that most of the model feasibility indicators meet the acceptance standards, although the GFI

value of 0.885 and AGFI of 0.848 are still in the marginally acceptable category. However, the model as a whole was still considered feasible, supported by excellent fit values on the CFI (0.990), TLI (0.988), and RMSEA (0.023) indices.

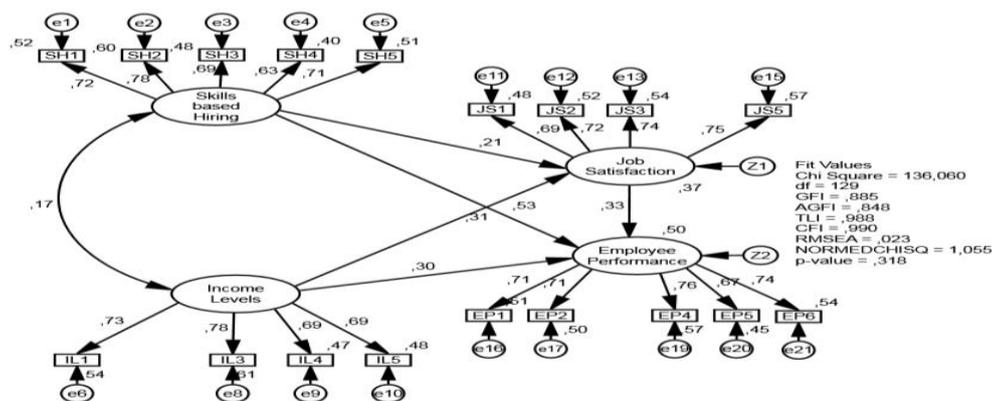


Figure 1. Structural Model Results
Source: Output of SEM Amos, 2025.

DISCUSSION

The Effect of Skills-Based Recruitment on Employee Job Satisfaction

The study results indicate that skills-based recruitment significantly affects job satisfaction at KPP Pratama Banda Aceh. This is evidenced by a standardized estimation coefficient of 0.213, CR value of 1.999 (> 1.96), and p-value of 0.046 (< 0.05), which confirms the statistical significance of this relationship. These findings are consistent with previous studies that state that skills-based recruitment positively and significantly impacts employee job satisfaction (Baghini et al., 2024; Gazi et al., 2024). This approach improves the match between applicants' competencies and job requirements, thereby strengthening employees' perceptions of the value of their contributions and reducing the risk of dissatisfaction due to role mismatch (Baghini et al., 2024).

The Effect of Income Level on Employee Job Satisfaction

The results show that income level significantly affects job satisfaction at KPP Pratama Banda Aceh. This is reflected in the standardized estimation coefficient of 0.534, CR value of 4.224 (> 1.96), and p-value < 0.001 (< 0.05), which indicates a strong statistical significance in this relationship. This finding is consistent with previous studies that prove that income has a positive and significant effect on employees' job satisfaction (Gazi et al., 2024; Ramasamy et al., 2023). Competitive income not only meets basic financial needs but also increases a sense of appreciation, stability, and job security, thereby reducing turnover and strengthening loyalty to the organization (Ramasamy et al., 2023).

The Effect of Skills-Based Recruitment on Employee Performance

The results of this study indicate that skill-based recruitment significantly affects employee performance at KPP Pratama in Banda Aceh. This is evidenced by a standardized estimation coefficient of 0.309,

CR value of 2.926 (> 1.96), and p-value of 0.003 (< 0.05), which confirms the statistical significance of this relationship. This finding is consistent with previous studies that state that skills-based recruitment contributes positively and significantly to improving employee performance (Al Montaser et al., 2025; Bone et al., 2024). By prioritizing relevant competencies, organizations can place employees according to their areas of expertise, thereby increasing operational efficiency and adaptive capabilities in facing work dynamics (Bone et al., 2024).

The Effect of Income Level on Employee Performance

The results of this study indicate that income level significantly affects employee performance at KPP Pratama Banda Aceh. This is indicated by a standardized estimation coefficient of 0.296, a CR value of 2.298 (> 1.96), and a p-value of 0.022 (< 0.05), which confirms the statistical significance of the relationship between the two variables. This finding is consistent with previous studies that state that income contributes positively and significantly to improving employees' performance (Afrin et al., 2023; Fulmer et al., 2023). The provision of adequate compensation acts as both an internal and external motivating factor, encouraging employees to perform optimally through increased commitment and proactivity (Afrin et al., 2023).

The Effect of Job Satisfaction on Employee Performance

The results of this study indicate that job satisfaction significantly affects employee performance at the Banda Aceh Tax Office. This is demonstrated by a standardized estimation coefficient of 0.331, a CR value of 2.435 (> 1.96), and a p-value of 0.015 (< 0.05), which confirms the statistical significance of this relationship. This finding is consistent with previous studies that confirm a strong positive correlation between job satisfaction and employee performance in the public service sector and

other fields (Afrin et al., 2023; Gazi et al., 2024). Employees with high levels of satisfaction tend to demonstrate better productivity and innovation, as job satisfaction increases intrinsic motivation and reduces absenteeism, thereby directly strengthening organizational performance (Gazi et al., 2024).

Job Satisfaction Mediates Skill-Based Recruitment and Employee Performance

The Sobel test results show that job satisfaction fully mediates the relationship between skill-based recruitment and employee performance at KPP Pratama Banda Aceh. This is indicated by the probability value on the direct path (C') of 0.125, which is insignificant, confirming that the effect of skill-based recruitment on performance occurs entirely through increased employee job satisfaction. Thus, skill-based recruitment does not have a direct impact on performance but rather through an increase in satisfying work perceptions and experiences. These findings are consistent with previous studies that confirm that job satisfaction is a full mediator in the relationship between recruitment practices and employee performance (Frinaldi et al., 2023; Na-nan et al., 2020).

Job Satisfaction Mediates Income Level and Employee Performance

The Sobel test results show that the probability value on the direct path (C') is 0.040, which is significant at the < 0.05 level. This finding indicates that job satisfaction partially mediates the relationship between income level and employee performance at KPP Pratama Banda Aceh. Thus, income level not only has a direct effect on performance improvement but also has an indirect effect through increased job satisfaction, which ultimately drives productivity and more optimal work results. This finding is consistent with previous studies showing that job satisfaction partially mediates the relationship between compensation and

employee performance (Frinaldi et al., 2023; Tambunan et al., 2025).

CONCLUSION

This study has several important theoretical implications. The findings show that skill-based recruitment and income level have positive and significant effects on job satisfaction, thereby strengthening the theoretical basis for the relationship between these two variables in the context of human resource management. In addition, the results of this study confirm that skill-based recruitment and income level have a positive and significant effect on employee performance. Further data analysis revealed that job satisfaction directly affects employee performance positively and significantly, in line with previous studies that confirm a strong and significant relationship between job satisfaction and improved performance.

The results showed that job satisfaction fully mediated the relationship between skill-based recruitment and employee performance, while partially mediating the relationship between income level and employee performance. These findings indicate that job satisfaction plays a more dominant role in improving performance by strengthening the impact of skill-based recruitment methods. Conversely, the mediating effect of job satisfaction on the relationship between income level and performance is relatively weak, as some of the effects of income level on performance remain direct.

This study shows that the application of skills-based recruitment and increased income levels has a positive and significant effect on job satisfaction. This means that the better the quality of skills-based recruitment practices and the higher the income level provided, the more likely the employee job satisfaction will increase. These findings confirm that efforts to improve employee performance require strategic attention to both aspects of motivation. In addition, organizations need to prioritize strengthening job satisfaction,

including through effective leadership, to optimize performance on an ongoing basis.

SUGGESTION

1. Further research should consider additional mediating variables, such as intrinsic motivation, organizational commitment, and perceptions of fairness, to enrich our understanding of the relationships between variables.
2. Further studies need to be conducted in different sectors or industries to assess whether the results are consistent across different organizational environments.
3. The use of qualitative approaches or mixed methods is recommended to gain a deeper understanding of the psychological processes that influence the relationship between the research variables.
4. Future research could analyze moderating variables, such as organizational culture, job characteristics, or employee autonomy levels, to identify conditions that strengthen or weaken the relationships found in this study.
5. A longitudinal research design is recommended to observe the long-term impact on employee satisfaction and performance.
6. Organizations must continue prioritizing selection processes that focus on competence and practical skills to improve role suitability and performance.
7. Providing a decent and competitive level of income is important as a form of reward and motivation for employees to stay.
8. Organizations must actively foster job satisfaction by creating a conducive work environment, offering career development opportunities, and implementing a system of rewards and recognition.
9. Compensation systems must be adaptively designed based on individual contributions and performance.

10. Regular evaluations of recruitment practices, compensation policies, and job satisfaction improvement programs are necessary to ensure their effectiveness and continuous improvement.

Declaration by Authors

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