

CHAPTER 1

INTRODUCTION

1.1. Background

Human resources (HR) are the most valuable asset in organizations. Human resources are any group or individual who can affect or be affected by the achievement of the organization's objectives (Freeman, 1984). Human resources become a person or group who support the company operation, it affects the effectiveness and efficiency of the company (Simamora, 2006, in Witasari 2009). Therefore, Human Resources Management (HRM) is an important function in company. To be successful, a human resources management should hire, select, and maintain a potential employee to minimize an employee turnover intention, enhance employee retention and performance in organization (Oluwafemi, 2010). According to Saeed (2014), turnover intention is organization's or employee's plan to leave their jobs or to fire the employee. It can be either voluntary or involuntary. In voluntary turnover, employee leaves the organization willingly. It occurs when the employee has an alternative best opportunity. While involuntary turnover intention occurs when organization was not satisfied with an employee performance and makes decision to fire him. Employees voluntarily leave organizations for a variety of reasons, including low satisfaction with their jobs, low satisfaction with co-worker, limited promotion and growth

opportunities, a better opportunity elsewhere, or disapproval of organizational changes or restructuring.

Turnover intention has both positive and negative impact on the organization (Staw, 1980). Quitting of some employees affect the efficiency of the remaining employees (Riley, 2006). It is good for the organization to fire the employees who are not productive and replace them with the productive ones, which will increase the human capital and the new ones will bring innovative ideas and solutions. According to Grobler et al (2005), turnover intention brings changes and innovation to the organization. Minor turnover is healthy for the organization.

In negative side of turnover intention, the organization has to pay a heavy cost of replacement of employees as a negative consequence. Organizations have to pay big portion of its time to recruiting and selecting activities which will increase the administration's responsibilities. High turnover intention also disturbs the operation in the organization (Woods and Macaulay, 1989, in Witasari, 2009). According to Rousseau (1984, in Witasari, 2009), turnover intention may develop two types of cost, which direct cost related to recruitment activity (such as advertising, cost of agent) and indirect cost such as cost related to training and losses of productivity while on learning process for new employee.

A factor that affects turnover intention is if employees do not have commitment to organization and are not satisfied with their job.

Job satisfaction may be affected by salary equity, clear job desk in organization and perceive balance with what they get and give. While organization commitment is affected by job satisfaction. Thus, if employees are satisfied with their job then they will be committed to organization. Therefore more satisfaction employee perceived will affect to less desire to resign. Moreover if employees have high organizational commitment, the employees will not have desire to resign.

However, dissatisfaction identified as one of the reason for employee to resign. High level of turnover intention will bring a problem to organizations, even could make frustration to the organization. The frustration happen when last recruitment process seek for high quality staff become useless, because those staff resign and work to other organization (Dennis, 1998, in Toly, 2001).

Organizational commitment is other factors that might affect turnover intention. Organization commitment has become one of the most popular work attitudes studied by practitioners and researchers. Akintayo (2010) and Tumwesigye (2010) noted that one of the reasons why commitment has attracted research attention is because organization depend on committed employees to create and maintain competitive advantage and achieve superior performance. Committed employees who are highly motivated to contribute their time and energy to the pursuit of organizational goals are increasingly acknowledged to be the primary asset available to an organization

(Hunjra, 2010). Furthermore, employees who share a commitment to the organization and their collective well-being are more suitable to generate the social capital that facilitates organizational learning.

Several factors might affect an employee commitment such as leadership style (Lo, 2009), organizational fairness (Ponnu and Chuah, 2010), corporate social responsibility (Ali et al, 2010). According to Wexley and Yulk (1977, in Bagus, 2009), organization culture also affects the organizational commitment. If employees feel their soul is bound to the values of organization culture, satisfaction will be reached, employees will work well and sincerely, which is expected to reduce absenteeism, turnover, and lateness. Workers who become less committed to an organization, will route their commitment in other directions. Thus it is important to know how to develop the right type and level of employee commitment to ensure that a better employees were retained. Employees who develop a high level of employee commitment tend to be highly satisfied and are fulfilled by their jobs.

Based on previous research by Lum et al. (1998) it is noted that job satisfaction has positive relationship with organization commitment, where employees who are satisfied with what employees receive will work in long period. This result is supported by Chao (2010) who noted that job satisfaction has a positive impact to organizational commitment. It is because increasing employee's sense

of satisfaction impact to employee commitment, thus employee be more loyal and observant to organization.

Compensation is central to the functioning of any employee-employer relationship and it is a matter that is closest to the heart of both the employee and the employer. It related to the welfare of the workers with special references to enhanced salaries which has relationships to what is obtainable in the economy. Compensation can be either monetary or nonmonetary compensation. Monetary compensation such as salary, bonus, and allowance. While nonmonetary compensation such as training, promotion opportunities, safety and chance to be promoted. Compensation might be one of factors which affect organizational commitment. If employee perceive imbalance in their input (compensation) and output (job desk) will result in high accident rate, job dissatisfaction frequent absenteeism, low productivity, lack of commitment to organizational goals and objectives, and intention to quit.

If employee perceive balance in their input (compensation) and output (job desk), it will increase job satisfaction. According to Ghazanfar et al. (2011), satisfaction with compensation has strong relationship. If employee feel that the compensation is well enough and higher than others competitor, they will satisfy to work in the organization. Satisfaction among employee may lead to how deep their commitment to organization. They will be more loyal and work

as well as they can to reach organizational goal. Thus employee satisfaction will has turn down a turnover intention in organization.

Organizational commitment will affect to turnover intentions. Employees who have strong commitment with organization have less intention to move toward another organization than the employees who are not effectively and strongly committed. Factors that affect employees leave organization is when they are not satisfy with organization. Job satisfaction affected by clear distribution task in organization with proper salary among employee. If employee have clear task with a proper salary, they will have job satisfaction. Organizational commitment also affected by job satisfaction, means if employee have a job satisfaction they will commit to the organization. In conclusion, if employee feel satisfy in every aspect in organization which affect high commitment to organization, it will turn to low turnover intention.

PT. XYZ is one of the leading tobacco companies in Indonesia. Based on data of PT. XYZ in finance department in average, the turnover intention is low. Finance position has a task to input expense to program, count assets in PT. XYZ over Indonesia, establish a new system to increase efficiency in organization. The requirement of finance department is have bachelor degree in accounting and should enable to speak English. Employees in this company have several compensation and benefit such as get salary above minimum wage with five effective days a week, get health and

eyeglasses insurance, and also get car benefit for top level management. Theoretically, those compensations affect to job satisfaction and organizational commitment which inflict to low level of turnover intention.

Employees in PT. XYZ are very committed to the organization. About 50% of workers in finance department already work in such a long period, it is about five until eight years. The 20% of workers was already work more than ten years and the rest was young generation who work for less than five years. Beside that, PT. XYZ organize training to improve employee knowledge and skills. It makes employee proud to be a part of PT. XYZ. Then, it can be predicted that employees in PT. XYZ will satisfy and commit to the organization, so turnover intention will be low.

Even several employee resign from this company, but personal reason such as getting married and pregnant period become the factors. But the question is how PT. XYZ can make their employee satisfied and proud to work in this company. What kind of factors that makes employee commit for such a long time to work in PT. XYZ. Is that truly related to compensation which affect to job satisfaction only a factor that makes worker work in a long period consider the wage in PT. XYZ above minimum wages in Surabaya.

Based on the background, a research entitled “The Impact of Compensation and Job Satisfaction towards Organizational

Commitment and Turnover Intention of Finance Employees at PT. XYZ” will be conducted.

1.2. Research Questions

Based on the background above, the formulation of the problem is as follows:

1. Does compensation have positive impact on organizational commitment of finance employees at PT. XYZ?
2. Does job satisfaction have positive impact on organizational commitment of finance employees at PT. XYZ?
3. Does compensation have negative impact on turnover intention of finance employees at PT. XYZ?
4. Does job satisfaction have negative impact on turnover intention of finance employees at PT. XYZ?
5. Does organizational commitment have negative impact on turnover intention of finance employees at PT. XYZ?

1.3. Research Objectives

Based on the research question in this study, researcher aim at:

1. Analyzing the positive impact of compensation on organizational commitment of finance employees at PT. XYZ.

2. Analyzing the positive impact of job satisfaction on organizational commitment of finance employees at PT. XYZ.
3. Analyzing the negative impact of compensation on turnover intention of finance employees at PT. XYZ.
4. Analyzing the negative impact of job satisfaction on turnover intention of finance employees at PT. XYZ.
5. Analyzing the negative impact of organizational commitment on turnover intention of finance employees at PT. XYZ.

1.4. Significance of Research

The advantage of study research:

1. Academic advantage

This research can be used as the references to people who do similar study research, especially about human resource management in the effect of compensation and job satisfaction towards organizational commitment and turnover intention for employee.

2. Practical advantage

Provide information to PT. XYZ to understand the effect of compensation and job satisfaction towards organizational commitment and turnover intention, also analyze the effect of organization commitment towards turnover intention for employee.

1.5. Systematics of Research

Systematics writing used in this research are as follows:

CHAPTER 1. INTRODUCTION

This chapter will discuss background, research questions, research objectives, significance and systematics of thesis.

CHAPTER 2. LITERATURE REVIEW

In this chapter previous relevant research journal, theoretical background and hypothesis of research will be presented.

CHAPTER 3. RESEARCH METHOD

The chapter will describe the process in conducting research, such as: research design, identification of variables, operational definitions, types and source of data, data collection methods, sampling techniques, data analysis technique, and hypothesis testing procedures.

CHAPTER 4. ANALYSIS AND DISCUSSION

This chapter describes and explains the result of the study, using tables, graphic, and narrations. This chapter also provides a detailed explanation regarding the results and the relationship towards the previous research.

CHAPTER 5. CONCLUSION AND SUGGESTION

This chapter gives a conclusion about the research's result in relation to Chapter 4, theoretical suggestion and practical suggestion.