

Effect of Compensation on Employee Loyalty (Case Study of PT Remco Palembang)

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Abstract

This study aims to analyze the effect of compensation on employees' loyalty at PT Remco Palembang. Samples were selected using sample random sampling technique. Data of 77 respondents were collected through documentation, interviews, and questionnaires. This study implemented a simple linear regression method to analyze data. The results of the investigation show that compensation has a significant effect on employees' loyalty. This empirical evidence can provide benefits for PT Remco Palembang. To increase employees' loyalty, the company should optimize compensation for employees.

Keywords: compensation, loyalty, HR management

1. Introduction

Compensation is everything that is received by employees either directly or indirectly, compensation means the rewards received by employees after working for the company either in the form of money or goods, as well as direct and indirect compensation. Dessler (in Heryati 2016) employee compensation includes all forms of payment given to employees and arises from their work relationship. Employee compensation has two main components, namely direct financial payments (wages, salaries, incentives, commissions and bonuses) and indirect financial payments (financial benefits such as insurance and holidays paid by the employer).

Loyalty according to Hasibuan (in Heryati 2016) loyalty is reflected by the willingness of employees to protect and defend the organization inside and outside of work from people who are not responsible. Employees who have high loyalty are needed for the progress and success of company goals. Employee loyalty reflects a sense of loyalty and obedience to the company both during work time and outside work time, this is very important in maintaining the confidentiality of company data and documents, defending and fighting for the good name of the company from irresponsible parties who aim to destroy and harm the company.

Based on the description of the data, the number of employees leaving is greater than the number of employees entering. This shows that there is still a lack of employee loyalty at PT Remco Palembang and decreased production results. This is influenced by the compensation provided by the company which is still considered to have not fulfilled the wishes of employees and the bonus is not given on time from a predetermined time. The premiums given by the company are also still considered low and have not fulfilled the wishes of the employees. Therefore, PT Remco Palembang's employee loyalty is still low, this is indicated by the number of employees who have left in the last 4 years which is somewhat larger than the number of employees who have entered. The aims of this study were: to determine the effect of Compensation on Employee Loyalty at PT Remco Palembang.

2. Literature Review

2.1 Compensation

According to Dessler (in Heryati 2016) employee compensation includes all forms of payment given to employees and arises from their work relationship. Employee compensation has two main components, namely direct financial payments (wages, salaries, incentives, commissions and bonuses) and indirect financial payments (financial benefits such as insurance and vacations paid by the employer). According to Hasibuan 2005 (in Nur 2017) compensation is all income in the form of money, goods, directly or indirectly received by employees as compensation for services provided by the company to the company.

Compensation indicators according to Simamora 2004 (in Nawa & Kempa 2017).

- 1) Fair pay and wages according to work.
- 2) Incentives that match the sacrifice.
- 3) Expected benefits.
- 4) Adequate facilities.

The principle of compensation is remuneration that must be determined on the principle of fairness and the principle of eligibility and fairness (Sinambela, 2017). According to Mulyadi (2016) the purpose of providing compensation is to improve employee welfare, to motivate employees, also to increase employee productivity, and to retain potential employees.

According to Bilson 2004 (in Nur 2017) suggests that forms of compensation can be grouped into two, namely:

1. Financial Compensation

Direct Financial Compensation consists of payments that a person receives in the form of wages, salaries, commissions and bonuses.

2. Indirect Financial Compensation includes all financial rewards that are not included in direct financial compensation.

Allowances given to each employee for work performance achieved.

3. Non-financial Compensation, includes satisfaction received by a person or from the psychological and/or physical environment in which that person works. The compensation aspect includes psychological and physical factors in the company's work environment.

There are several factors that can affect compensation (Mulyadi, 2016)

1. Supply and demand. If the supply of labor is very scarce or less then the salary demanded will be high. And vice versa if the demand for labor decreases then job opportunities become scarce, then wages will tend to be low.
2. Ability to pay. The company's ability to pay compensation or company salary depends on the scale of the business and the good name of the company.
3. Trade unions. If the union has a strong position, the position for employees will also be strong in determining compensation policies.
4. Work productivity. If the salary or wages given to employees are high and adjusted for productivity, then for employees who excel more and more, the higher wages or salaries will

be received.

The function of providing compensation according to Samsudin 2006 (in Sinambela 2017)

1. Efficient HR allocation. This function shows that the provision of compensation for employees who excel will encourage them to work better
2. More efficient and effective use of human resources. Providing compensation to employees implies that employees will use these employees as efficiently and effectively as possible.
3. Encouraging stability and economic growth. This means that the compensation system can help maintain employee stability and promote overall economic growth in the country.

2.2 Loyalty

Poerwoepoespito 2004 (in Kusumawati 2016) states that loyalty to work is reflected in attitudes that devote their abilities and expertise, carrying out tasks with responsibility, discipline and honesty at work. According to Hasibuan (in Heryati 2016) loyalty is reflected by the willingness of employees to protect and defend the organization inside and outside of work from people who are not responsible. According to Reichheld (in Heryati 2016), the higher the loyalty of employees in an organization, the easier it is for the organization It is to achieve organizational goals that have been previously set by the company. There are 4 indicators that can be used to identify employee loyalty as stated by Saydam 2000 (in Inayah et al 2019):

- 1) Obedience and Compliance.
- 2) Be Responsible.
- 3) Honesty.
- 4) Devotion.

Loyalty development needs to be done on Human Resources in the company. According to Gouzali Saydam (in Evawati 2015).

- a. Have high concern for the company.
- b. Feeling of belonging to the company
- c. Can prevent turn over (too many employees leave the office)

3. Research Method

The data source used in this research is a questionnaire. References to the author's questionnaire were obtained from journals and theses from other researchers who conducted similar research. The questionnaire used will be adjusted to the variables and indicators in this study. This type of research uses Quantitative which produces determinations that can be achieved using SPSS procedures or other quantitative methods (Measurement). Data collection techniques in this study at PT Remco Palembang used a questionnaire and documentation method. The population in this study were employees of PT Remco Palembang totaling 328 employees. The sampling technique is Simple Random Sampling with a total of 77 employees of PT Remco Palembang. This study uses several data processing, namely as follows Validity Test, Reliability Test, Normality Test, Simple Linear Regression Analysis Test, t test, Correlation Coefficient Test (R), Determination Test (R²).

4. Findings and Discussions

4.1 Validity test

Tabel 1. Validity test

Variable	Statement	r_{count}	r_{tabel}	Explanation
Compensation (X)	X.1	0,683	0,2242	Valid
	X.2	0,600	0,2242	Valid
	X.3	0,646	0,2242	Valid
	X.4	0,640	0,2242	Valid
	X.5	0,621	0,2242	Valid
	X.6	0,464	0,2242	Valid
	X.7	0,481	0,2242	Valid
	X.8	0,634	0,2242	Valid
Loyalty (Y)	Y.1	0,543	0,2242	Valid
	Y.2	0,651	0,2242	Valid
	Y.3	0,710	0,2242	Valid
	Y.4	0,679	0,2242	Valid
	Y.5	0,688	0,2242	Valid
	Y.6	0,609	0,2242	Valid
	Y.7	0,511	0,2242	Valid
	Y.8	0,760	0,2242	Valid
	Y.9	0,562	0,2242	Valid

Source: Data processed by SPSS

Based on table 1, all statement items show $r_{\text{count}} > r_{\text{tabel}}$, it can be concluded that all the statements above are valid.

4.2 Reliability Test

Table 2. Compensation variable reliability test

Reliability Statistics	
Cronbach's Alpha	N of Items
,725	8

Source: Data processed by SPSS

Based on table 2, it is known that the Cronbach Alpha value is greater than 0.6 which is equal to 0.725, it can be concluded that the questionnaire statement items are reliable.

Table 3. Loyalty variable reliability test

Reliability Statistics	
Cronbach's Alpha	N of Items
,811	9

Source: Data processed, 2020

Based on table 3, it is known that the Cronbach's Alpha value is greater than 0.6 which is equal to 0.811, it can be concluded that the questionnaire statement items are reliable.

4.3 Normality Test

Table 4. Normality test

		Unstandardized Residual
N		77
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	2,76857832
Most Extreme Differences	Absolute	,086
	Positive	,086
	Negative	-,061
Test Statistic		,086
Asymp. Sig. (2-tailed)		,200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Based on table 4, it is known that the significance value of 0.200 is greater than 0.05, so it can be concluded that the data is normally distributed.

4.4 Test t results

Tabel 5. Test t results

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	14,178	3,231		4,389
	Compensation	,710	,096	,649	7,390

a. Dependent Variable: Loyalty

Source: data processed by SPSS V. 24

From the results of the above calculations it is known that the t_{count} is (7.390) > t_{table} (1.9921) and sig 0.00 < 0.05, this means H_0 is rejected and H_1 is accepted. So that it can be concluded that compensation has a significant effect on employee loyalty.

Correlation Coefficient (R)

Table 6. Correlation coefficient (R)

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	,649 ^a	,421	,414	2,787	

a. Predictors: (Constant), Compensation

b. Dependent Variable: loyalty

Source: data processed by SPSS V. 24

From table 6 it can be concluded that between the compensation variable and the employee loyalty variable, it has a strong relationship because it has a correlation of 0.649 (64.9%).

4.7 Determination Coefficient (R²)

Table 7. Determination Coefficient (R²)

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	,649 ^a	,421	,414	2,787	

a. Predictors: (Constant), Compensation

b. Dependent Variable: Loyalitas

Source: data processed by SPSS 24

Based on table 7, it is known that the determination coefficient (R^2) is 0.414 or 41.4%. This value indicates that the loyalty variable (Y) can be explained by compensation (X) of 41.4%, while the remaining 58.6% is explained by other variables outside this study.

This study aims to determine the effect of compensation (X) on employee loyalty (Y) of PT Remco Palembang. Statistical t-test results of tests carried out partially using the t-test, the compensation variable has a significance of 0.000 or less than 0.05 and the t-count value is $7.390 > t\text{-table } 1.9921$. So it can be concluded that compensation affects employee loyalty of PT Remco Palembang. These results prove that H1 is accepted, compensation has an effect on employee loyalty. The results of this study support the research conducted (Utami & Dwiatmadja 2020), which states that compensation affects loyalty.

5. Conclusion

The results of the study using the t test on Compensation obtained the results of t-count ($7.390 > t\text{-table } (1.9921)$ and sig $0.00 < 0.05$ this means H_0 is rejected and H_1 is accepted. So it can be concluded that compensation has a significant effect on employee loyalty. From these results it can be concluded that compensation has a positive effect on employee loyalty at PT Remco Palembang. The correlation coefficient (R) between the compensation variable and the employee loyalty variable has a strong relationship because it has a correlation of 0.649 (64.9%). The coefficient of determination (R^2) the value of the coefficient of determination (R^2) is 0.414 or 41.4%. This value indicates that the loyalty variable (Y) can be explained by compensation (X) of 41.4%, while the remaining 58.6% is explained by other variables outside this study

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