

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

Increasing competition in the business world at this time is a whip for companies to be able to find the right strategy in achieving company goals. Therefore, every company should be careful with other competitive a much higher, one of the efforts of the company is to manage and use human resources properly and correctly. Because human resources is the most important element and asset for the company and an important part in achieving the goals of the company whether it is large or small companies. Without human resources, the company will experience quite high difficulties. The company must have a good enough contribution for its employees, so that the company not only contribute in the form of contribution of energy alone, but also the conceptual contribution, and a sense of loyal employees to the company. Loyalty is a condition of one's attitude to keep firm loyalty to company, supervisors, or colleague. It is expected that an employee has a high loyalty attitude so that effectiveness and the efficiency of achieving company goals will be achieved well in a company. When employee loyalty decreases, it can cause huge losses for the company. The most important factors of employee loyalty is employers need to be able to identify and retain loyal employees. The impact of employee loyalty is employee has been working for a company for 20 years doesn't automatically guarantee their loyalty.

For example: an employee have difficulty to finding a better job opportunity cause lack of marketable (Aityan and Gupta, 2011).

The company's sense of loyalty to the company cannot be built easily by the company, so the company must be able to maintain and retain job satisfaction and employees. Job satisfaction can be higher, if compensation is higher and working environment is comfortable and bright. This study uses the compensation and work environment as variables independent on job satisfaction and employee loyalty.

Employee loyalty is demonstrated by employee attitudes devoted to their expertise and skills, performing tasks with responsibility, honest to work, good co-operation with colleagues, good working relationships with superiors, discipline and loyalty to work in the company for longer periods (Poerwopoespito, 2000) in journal (Pramuktiarto, 2017). According to Mondy (2008) in journal (Farida and Oetomo, 2016) loyalty is reflected in the extent to which the relationship between workers and firms as well as in common purpose between workers and firms. It encourages researchers to analyze employee loyalty. Also the similarity of goals between individuals and companies. This encourages researchers to analyze employee loyalty. According to Hasibuan (2010) in journal (Farida and Oetomo, 2016), loyalty is one of the elements used by a company to assess employees as far as the employee's loyalty to them job, the position and the organization in which they works. According to Arifin and Mutaminah (2009) the factors that affect employees loyalty are : 1) There are facilities work, 2) Subsidy of prosperity, 3) The

atmosphere of work, 4) Wages that received by employees, 5) Personal characteristics, 6) The characteristics of work, 7) The characteristics of company, 8) The experience gained for employee to pursue the job.

Company X is a company that stir in the furniture sector that was established since 2002. Furniture as one type of furniture has been known almost as old as the history of human civilization. From just a better function, use those aspects that speak about the beauty and even the status symbols of the owner. Various kinds of furniture made for the satisfaction of its users who continue to grow also in line with technological developments. Furniture from originally home-produced (home industry) can be produced systematically and in mass with the latest technology. Company X which tempt always strives to provide better service for customers. The goal of Company X is to be known as a furniture company that has good and great service for customers. Company X located in East Java has about 4600 workers. With many of its workforce on Company X, then there are companies that provide services and environment in Company X in order to increase employee job satisfaction. Employee job satisfaction is very important because if employees are not satisfied then employees wouldn't be loyal (Onsardi, Asmawi, and Abdullah, 2017).

Job satisfaction is related to the constellation of organizational aspects, that is: colleagues, awards, communication, working conditions, allowance, the nature of the work itself, the nature of the organization itself, organizational procedures and policies,

remuneration, personal development, opportunities for promotion, recognition, supervision, and security (Spector, 1997) in journal (Mafini, Surujlal and Dhurup, 2013). According Colquitt (2013) in journal (Onsardi, Asmawi, and Abdullah, 2015) job satisfaction is a pleasant emotional state and resulted from a job assessment or a person's work experience. According to Robbins and Judge (2015) in journal Onsardi, Asmawi, and Abdullah (2015) job satisfaction is a positive feeling about a job, which can be resulting from an evaluation of job aspect. Employees who are satisfied with their work will tend to improve their performance both from quantity and quality (Wibowo and Sutanto, 2013). According to Luthans (2011) in journal (Onsardi, Asmawi, and Abdullah, 2015) job satisfaction is a positive emotional or pleasurable state resulting from job experience. According to Onsardi, Asmawi, and Abdullah (2017), job satisfaction is a pleasant or unpleasant attitude felt by employees that arise as a result of work performed, with indicators: (1) Enjoy with the work, (2) Bonus are appropriate, (3) Working situation, (4) Partner, and (5) Work personality suitability. According to Luthans (2005) in journal (Wibowo and Sutanto, 2013) there are five dimensions to measure job satisfaction by using Job Descriptive Index (JDI). These five dimensions are 1) The satisfaction of the job itself, 2) The satisfaction of the salary, 3) The satisfaction of the job promotion opportunity, 4) The satisfaction of the boss, 5) The satisfaction of the co-workers.

Job satisfaction is directly related to employee loyalty. Job satisfaction perceived by employees can decrease loyalty or increase

employee loyalty (Wibowo and Sutanto, 2013). Employee job satisfaction can be shown through employee behavior by showing a happy attitude or not happy attitude with the work it does. If the employee is satisfied with obtained from the company, then employees will give results by exceed the target company as well if employees are not satisfied with obtained from the company then the work of employees will not be as expected (Onsardi, Asmawi, and Abdullah, 2017).

Working environment is a characterize working condition including the psychological, social aspects and the physical (Jain and Kaur, 2014). According to Dessler (2006) work environment that centers on employees can improve performance. The impact of work environment is if work environment will not be able to use, it will make degrade employee performance. At this time the work environment can be designed in such a way as to create work relationships that engage workers in their environment. A good working environment is safe, not too noisy, bright and free from all sorts of threats and distractions that can prevent employees from working optimally. An environmental condition can be said to be good or appropriate, if human can carry out its activities optimally, healthy, safe, and comfortable (Sedarmayanti, 2011) in journal (Aruan and Fakhri, 2015). According to Spector (1997) in journal Mafini, Surujlal and Dhurup (2013) working environment is part of the participation in the decision making process of the firm, good relations with partner in work, recognition for good performance, job security, motivation for

performing well and safety to employees. According to Herzberg (1966) in journal (Waqas, et al, 2014) stated are working conditions as space, tools, lighting, ventilation, the amount of work, the facilities of the institution and other related environmental features. Some other researcher also analyzed the air quality, lighting and other parameters on physical health like: headache, skin irritation, eye and nose, throat, pain, fatigues, and stomachache. According to Raziq and Maulabakhsh (2015) working environment includes the working hours, job safety, job security, relationship among employees, esteem needs of employees and the influence of top management on the work of employees.

One of the factors that can improve job satisfaction is a working conditions that support (Robbins, 1996:208) in journal (Pangestu, Mukzam, and Ruhana, 2017). Employees need a good working environment, in addition to comfort as well as a supporting factor in carrying out its work. The establishment of a work environment that can support work performance will lead to satisfaction for employees in an organization, so that employees will survive in the company and become an important asset for the company (Aruan and Fakhri, 2015). According to Aruan and Fakhri (2015) a comfortable working environment can reduce the sense of boredom in work. Comfort will have an impact on increasing motivation and generate employee job satisfaction. Conversely, the inconvenience of the work environment experienced by employees can be fatal is the decline in employee's own work motivation and

resulting employee work dissatisfaction that affect the performance of employees in the work.

Compensation is provided to employees in return for the services and get the total compensation of all rewards (Mondy, 2014) in journal Onsardi, Asmawi, Abdullah (2015). According to Handoko (2014) in journal (Onsardi, Asmawi, Abdullah, 2015) explains that compensation are to obtain control costs, respect the desired behavior, retain existing employees, ensure justice, qualified personnel and obey the legal regulations. According to Colquitt, et al, (2010) in journal (Onsardi, Asmawi, Abdullah, 2015) there are three elements to be considered in designing a compensation system and there are several factors that can influence it, there are: 1) Organization-focused, 2) Individual-focused, and 3) Unit-focused. There are 4 factors that compensation can influence it, by according to Cascio (2003) there are: 1) Mangerial attitude and an organization's ability to pay, 2) Legislation, 3) Labor market conditions, 4) Collective bargaining. According to Mondy (2014) in journal (Onsardi, Asmawi, Abdullah, 2015) the factors that affect to the compensation are: 1) Expediency, 2) The economy, 3) Cost of living, 4) Legislation, 5) Compensation policies, 6) Ability to pay, 7) Labor unions, 8) Organization level, and 9) Compensation surveys. The impact of compensation is if the employee is dissatisfied with the compensation, then they can try to find another job that provides better compensation. It is quite dangerous for a company if a competitor hires or hijacks a disgruntled employee because it can divulge company secrets.

According to Erisman and Arini (2016) in journal Onsardi, Asmawi, Abdullah (2015) explain that compensation has an important role in working creatively and making employees feel comfortable in the company. According to Simamora (2006:445) in journal (Irawan, Hamid, Riza, 2014) the type of compensation the company provides to the employees is divided into 2, there are: 1) Direct compensation consists of wages and salaries, incentives, allowances and bonuses, 2) Non-financial compensation usually can be from work environment. According to Farida and Oetomo (2016) The important of compensation is as follows: 1) Fulfillment. Employees receive compensation in the form of wages, salaries or other forms is to be able to meet the needs of daily life or in other words, the needs of its economy. With the certainty of receiving such wages or salaries periodically, means the existence of economic security guarantees for himself and his family that became his responsibility, 2) Increase work productivity. Better compensation will encourage employees to work productively, 3) Advancing the organization or company. The more daring a company or organization delivers high compensation, the more it demonstrates how successful a company is because high compensation is only possible when the company's revenue is used for it, 4) Creates balance and fairness. This means that the provision of compensation relates to the requirements to be met by the employee on the job so as to create a balance between the input (terms) and the output.

Compensation plays an important role in determining an employee's level of job satisfaction, if individuals believe they are not compensated well, a state of emotional dissatisfaction develops (Muguongo, Muguna, and Muriithi, 2015). Employees want a compensation system which is fair, simple and appropriate with their expectations, when compensation is seen as fair, individual skill level, based on job demands, and community pay standards (Muguongo, Muguna, and Muriithi, 2015). According to Muguongo, Muguna, and Muriithi (2015) observes that compensation is a predictor of job satisfaction in that employees who are paid highly show a greater job satisfaction.

## **1.2 Research Questions**

Based on the background above, so the research question is as follows:

1. Does Compensation affect Job Satisfaction ?
2. Does Working Environment affect Job Satisfaction ?
3. Does Job Satisfaction affect Employee Loyalty ?

### **1.3 Objective of The Study**

The objective is as follows:

1. To analyze the effect of Compensation on Job Satisfaction.
2. To analyze the effect of Working environment on Job Satisfaction.
3. To analyze the effect of Job Satisfaction on Employee Loyalty.

### **1.4 Significance of The Study**

This research was conducted with the hope to provide the following benefits:

1. Academic significance :  
As a reference or benchmark for the next researcher with similar topics is the analysis of compensation, working environment on job satisfaction and its effect to employee loyalty.
2. Practical significance :  
As one of the considerations for the company in maintaining and improving employee loyalty, there are by taking into the compensation, work environment, and job satisfaction given to the employee loyalty.

## **1.5. Writing Systematic**

The systematic of writing this study is divided into five chapters and arranged as follows:

### **CHAPTER 1: INTRODUCTION**

This chapter consist of background of the study, research questions, objectives of the study, significance of the study, and writing systematic of this study.

### **CHAPTER 2: LITERATURE REVIEW**

This chapter presents the previous study, literature review about compensation, work environment, job satisfaction, employee loyalty, the relationship among variables, research framework, and hypothesis.

### **CHAPTER 3: RESEARCH METHODOLOGY**

This chapter describes the process of analyzing data including research design, identification of variable, operational definion, variable measurement, type of data, data sources, data collection method, population, sample and sampling technique, data analysis technique, validity and reliability, model feasibility test, and hypothesis testing.

#### CHAPTER 4: ANALYSIS AND DISCUSSION

This chapter consists of research data description data analysis, and discussion. It is also discussing about respondents characteristic, descriptive statistics, hypothesis testing.

#### CHAPTER 5 : CONSLUSION AND SUGGESTION

This chapter is the closing of this study that consists of conclusion and suggestion for the research object and for the researcher to do a further research.