

# **CHAPTER I**

## **INTRODUCTION**

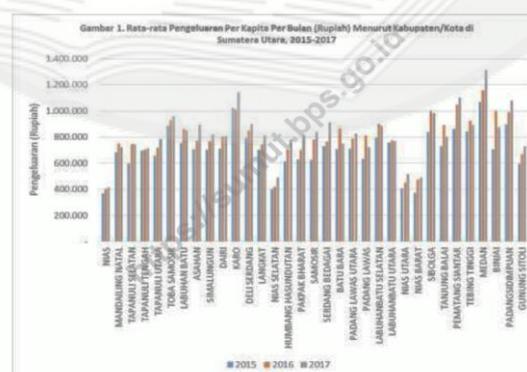
### **1.1 BACKGROUND OF THE STUDY**

Nowadays as we know the competition in all sector of business, whether national company, multinational company and international company, is tighter than old days because there are more and more new companies in market which gives several brand options for customer to choose. In fact, educated and qualified people are also more than before hence company has more chance to hire more qualified people to work. It is no doubt that company will always need to grow bigger and get more profits to reach its mission and vision. To achieve company mission and vision, company's leader could not do it by himself or herself. Employees are valuable asset in company. Not only that, company needed employees who give high performance in doing their task as well. Thus, company also need to offer something more than just base salary for its employee so not only company can attract qualified employee which match the company needs to work but also it can motivate employee to enhance their performance in work place.

As we know that nowadays companies that not only give base salary to employee as what they get in return of employee hard work, but also give something called compensation. McKinney (2018) stated that Compensation usually it is the largest expenses or cost that company has to pay. Compensation can be divided into two which are cash and non-cash. It was given to employee based on the company procedure. Technically, compensation itself was not only fulfill physical satisfaction but also non-physical satisfaction such as pride and feeling satisfy because he or she is being appreciate.

Employee performance is something that company need to pay attention to because it could affect the output of the company. Employees themselves are most valuable asset in company. Hence, company need to take care of its employee to make the employee feel comfortable working in that particular company thus employee can be loyal to where their work in. Not to mention employee also need to feel that their hard work is paid off so they will feel being appreciated. Hence, the purpose of this research is to know whether it has impact of compensation towards employee performance.

As my research object will be in company which is PT. Sorby International Medan that specifically in export seafood, I will list down minimum wage in 2019 for North Sumatera because the company itself located in North Sumatera. On November 2018, the central government has stated that by 2019 the minimum wage will increase 8.03% (Daniswara, 2018) therefor since 2019, the minimum wage in North Sumatera become Rp 2.303.402. From the price of primary needs such as staple food, attire and residence nowadays, it will more or less exceed the minimum work wage as we can see from the statistic below we can see that North Sumatera particularly in Medan has the highest average community expenditure compare to another district/ city surround North Sumatera.



**Figure 1.1 Average Community Expenditure in 2015-2017 at Medan**

Source: Badan Pusat Statistik Provinsi Sumatera Utara (2017)

Not to mention if the employee has a family and become the backbone of the family, education sector such as school nowadays in estimation is about Rp 600.000 for private school and Rp 300.000 for public school (Satia, 2018), moreover any tuition fees and another expense such as monthly shopping, pay for electricity, water and prepay bills. It is important to note that the table below do not include any education (for employee who has children) and another extra expense. In addition, the estimation price below is only for one person.

<b>Kota Medan</b>	
<b>KELOMPOK KOMODITAS</b>	<b>PENGELUARAN (Rp/Kapita/Bulan)</b>
(1)	(2)
<b>MAKANAN</b>	<b>625 811</b>
Padi-padian	59 705
Umbi-umbian	5 067
Ikan/udang/cumi/kerang	70 334
Daging	22 498
Telur dan Susu	39 215
Sayur-sayuran	42 077
Kacang-kacangan	7 291
Buah-buahan	29 719
Minyak dan Kelapa	16 859
Bahan Minuman	14 892
Bumbu-bumbuan	6 724
Konsumsi Lainnya	7 217
Makanan dan Minuman Jadi	244 080
Rokok dan Tembakau	60 133
<b>BUKAN MAKANAN</b>	<b>686 781</b>
Perumahan dan Fasilitas Rumah Tangga	348 414
Aneka Barang dan Jasa	192 380
Pakaian, Alas Kaki, dan Tutup Kepala	42 986
Barang Tahan Lama	41 422
Pajak, Pungutan, dan Asuransi	45 412
Keperluan Pesta dan Upacara/Kenduri	16 167
<b>JUMLAH</b>	<b>1 312 592</b>

**Figure 1.2 Average Per-Capita Expenditure Per Month (Rupiah)**

Source: Susenas (2017)

Thus, compensation is important due to it could at least lighten employee's weight and it is given to the employee in hope it will increase employee performance because compensation itself consciously or unconsciously will affect employee's psychology which make them become happier and more satisfied working there because they feel like they are being appreciated for their hard work. Besides, the increase of employee performance will help company to achieve its mission and vision seeing that employee plays an important role for the success of the company because leader himself or herself could not make the company success without success team supports and gives input to leader. In addition, even machine itself needs people to operate it or else it would not work as well. In this

case, employees who work in PT. Sorby International Medan hold important role because the company's progress rely on the employee's performance.

The reason researcher chooses PT. Sorby International Medan as her research object is because this company is international company which is the requirement from university that as international business student has to choose international company as his or her research object. This research aims for the writing of the *skripsi* “**The Impact of Compensation towards Employee Performance in PT. Sorby International Medan**”

## **1.2 PROBLEM LIMITATION**

This study aims to investigate the impact of compensation towards employee performance at PT. Sorby International Medan which located in Pulau Irian Kompleks Miel Nusantara I street, *Kawasan Industri Medan I* No.3A, Sampali, Percut Sei Tuan, Deli Serdang Districts, North Sumatera 20242

This study is specially focus on whether PT. Sorby International Medan gives compensation to employees who work in company. In total, employees work in PT. Sorby International Medan are thirty-seven which divide into Manager, Accountant, Production, Purchasing, Quality Control and their subordinates. Continue with analyzing the impact of compensation itself to employee performance by implementing quantitative method to prove the hypothesis. Before start using the statistic, researcher will give questionnaires to the employees with the intention of collecting more accurate data and interview with PT. Sorby International Medan general manager about the company.

## **1.3 PROBLEM FORMULATION**

- 1) Does compensation effecting employee performance?
- 2) What types of compensation given to employees in PT. Sorby International Medan?

#### **1.4 OBJECTIVE OF THE RESEARCH**

The objective of the research that the researcher can get are as follows:

- 1) To investigate the effect of compensation towards employee performance in PT. Sorby International Medan
- 2) To identify both cash and non-cash compensation given from the company to the employees

#### **1.5 BENEFIT OF THE RESEARCH**

There are two types of benefit from the research in compensation towards employee performance at PT. Sorby International Medan, which are:

##### **1.5.1 THEORETICAL BENEFIT**

The theoretical benefit of this study is to prove whether compensation as a factor on employee performance. In addition, the other benefit is to gain knowledge in depth regarding the theory and to actualization the theory that has been learned during the study program.

##### **1.5.2 PRACTICAL BENEFIT**

The benefit can be used for PT. Sorby International Medan so that they know how to increase their employee performance, for employees so that they know what they ought to do if they are being compensated and lastly is for government, in hope from this research the government can pay more attention to employees in Indonesia. Furthermore, this research could be a consideration source for making future changes at PT. Sorby International Medan.

#### **1.6 SYSTEMS OF WRITING**

The writing of this research is divided into five chapters. Each chapter is going to be divided again into several sub chapters according to the requirement.

The systematic outline of writing in this *skripsi* will be as follow:

## Chapter I – Introduction

The chapter examines about background of the study that explain the reason writer choose “The Impact of Compensation towards Employee Performance in PT. Sorby International Medan” as researcher theme to target of the exploration, advantage of the examination which in hypothetical advantage, and frameworks of composing.

## Chapter II – Literature Review and Hypothesis Development

The chapter contains theoretical background regarding definition of compensation, theory of compensation, types of compensation, definition of employee performance, theory of employee performance, and the relationship between compensation and employee performance, previous research, hypothesis development, research model and framework of thinking.

## Chapter III – Research Methodology

This chapter discusses about quantitative method of the research including the research design, population and sample, data collection method, operational variable definition and variable measurement as well as data analysis method.

## Chapter IV – Data Analysis and Discussion

The chapter explains general description of history, vision and mission, and job description of PT. Sorby International Medan, demonstrate data analysis in descriptive statistic, result of data quality testing and result of hypothesis testing and discussion.

## Chapter V – Conclusion

In this chapter, there will be a brief conclusion about the result of the research, the implication and also the recommendation and suggestion in the future.