

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Companies are formed to achieve certain goals. Therefore, a company's success is demonstrated by its ability to achieve predetermined goals. In everyday cases, companies actually expect the best work capacity from their employees. Employee performance should be in accordance with standards set by the company and it is the main thing that it is demanded by the company from its employees. It is crucial for a company to identify and select the competent, efficient, and knowledgeable employees in a company by creating and developing an effective compensation program in order to receive the optimal performance from the company employees'. Moreover, human resources have an essential role as a driving factor of the entire company activities in setting and achieving desired goals. Human resource management have been a key position for a company sustainability. If basic materials such as motivation, performance, job satisfaction and productivity are inefficiently fulfilled, it will cause disruption to company's sustainability (Hasibuan,2016).

Compensation means the ability and responsibility of a company to appreciate its employees' contribution for their task and goal achievement (Darma & Supriyanto, 2017) . For that reason, compensation should be designed so that it can provide satisfaction to employees so that employees can achieve work performance. Providing compensation in accordance with the position and risk

that can encourage employees to maximize their performance and increase employee job satisfaction. Compensation is important for employees as individuals, because the amount of compensation reflects the size of the value of their work among the employees themselves, their families and the community. Then, the compensation program is also important for the organization, because it can reflect the efforts of the organization to maintain human resources owned or in other words, so that employees have high loyalty and commitment to the organization.

PT. Menara Abadi Medan was founded in 2002 and it is one of the companies engaged in interior sales and design in Medan. PT. Menara Abadi Medan is a family business company and still led by the founder. This aims to facilitate the regulation and supervision of the company's operational activities to be more directed and in orderly fashion. PT. Menara Abadi Medan provides quality services in meeting customer expectations and adjusted to applicable regulations. The products are sold by companies that are diverse in type, quality and price. PT. Menara Abadi Medan vision is to become a distributor of good quality and after sales service for the sake of customer satisfaction. PT. Menara Abadi Medan mission is to provide the best service for customer satisfaction and continuous improvement in producing the best quality.

Employees incline to be satisfied if the rate of compensation they receive is comparable to the level of actual compensation, and not satisfied if the actual level of compensation is lower than it should be. Compensation satisfaction is

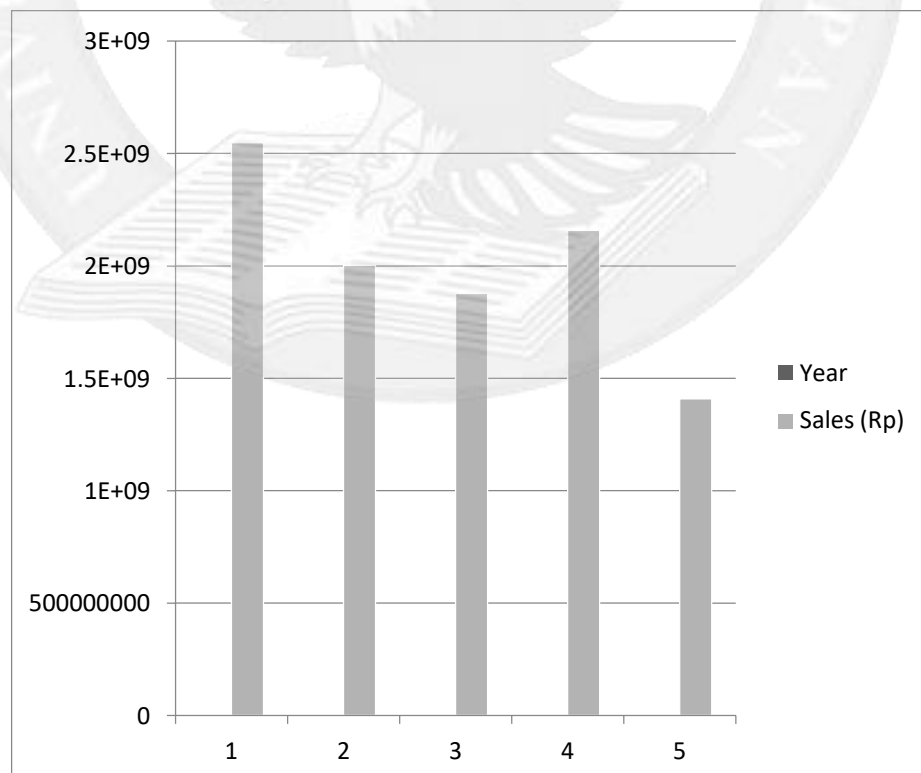
linked with differences in the level of compensation at different position in an organization (Schuler and Jackson, 2016).

At PT Menara Abadi Medan there is a decrease in employee performance which can be seen from the increase in absenteeism, decreased employee accuracy in carrying out and completing tasks and responsibilities, as well as decrease in employee morale at work. In addition, the decline in employee work productivity at this company is reflected in the increasing in absenteeism of employees at work and decrease in the production results.

**Table 1. 1 Sales Data PT Menara Abadi Medan 2016-2020**

Year	Sales (Rp)
2016	2,547,654,000
2017	2,001,746,000
2018	1,876,984,000
2019	2,157,650,000
2020	1,408,590,000

Sources : PT Menara Abadi Medan, 2021



**Figure 1. 1 Sales Data PT Menara Abadi Medan**

Sources: PT Menara Abadi Medan, 2021

Figure 1.1. shows that the level of employee performance is experiencing problems which result in a decrease in the sales of the company PT Menara Abadi Medan which is reflected in a decrease in the quality of work and the example time inaccuracy in work completion.

Nuray (2017), Investigated the relationship between organization-level compensation decisions and employee performance and they examined how companies' pay structures and pay levels relate to resource efficiency and financial performance. It is observed that there are many approaches to incentive compensation such as cash bonuses, stock purchase and profit sharing and it is also examined that individual and group incentive concept can be associated with reward and compensation for business community." Compensation is important for employees as individuals, because the amount of compensation reflects the size of the value of their work among the employees themselves, their families and the community. Then, the compensation program is also important for the organization, because it can reflect the organization's efforts to maintain its human resources or in other words, so that employees have high loyalty and commitment to the organization.

Until this time the compensation given by the company in the form of a salary each month, the incentives each month, the bonus once every year, BPJS taken from the employees salary by the company. In terms of work compensation at PT Menara Abadi Medan is lacking in providing compensation that satisfies its employees. The problem of compensation in this company is the date of receipt of

salaries every month which is sometimes irregular as the company sets at the end of the month employees receive salaries while in practice employees sometimes receive salaries on the 1st to 5th, low incentives for marketing staff who do not match sales targets that are high and some employees in some parts still have salaries or wages that do not meet the minimum wage. Some of these problems cause employees to be bored at work and unable to get work performance in the company as seen from the increasing number of absences of employees in the company. Compensation is often not satisfactory because of the frequent increase a small compensation but the work is given more even target a higher job. So that lead to the performance of the employees is low.

From the description that has been there before, it encourages researchers to discuss in the thesis under the title **“The Effect of Compensation Towards Employee Performance at PT Menara Abadi Medan.”**

## **1.2 Problem Limitation**

Limitation of the problem in this study only discusses the effect of compensation on Employee Performance at PT Menara Abadi Medan. This study is covers up to the researcher’s assessment and ability. In this study, the compensation will be the independent variable (X) involving amount of wages, incentives, time accuracy, etc. and employee performance will be the dependent variable (Y) involving company profit and employee work that is done.

### **1.3 Problem Formulation**

The problem formulation in this research are:

1. How is the condition Employee Compensation at PT Menara Abadi Medan?
2. How is the Employee Performance at PT Menara Abadi Medan?
3. Does Compensation Affects Toward Employee Performance at PT Menara Abadi Medan?

### **1.4 Objective of the Research**

The objective of this study is:

1. To analyze Employee Compensation at PT Menara Abadi Medan.
2. To analyze Employee Performance at PT Menara Abadi Medan.
3. To analyze influence Employee Compensation towards Employee Performance at PT Menara Abadi Medan.

### **1.5 Benefit of Research**

#### **1.5.1 Theoretical Benefit**

A reference for similar research in the future, especially concern about Employee Compensation attention to the level of Employee Performance.

#### **1.5.2 Practical Benefit**

From this study, the company will benefit from this research as they know if there is correlation between compensation and employee performance. If the compensation is sufficient enough, then employee performance will be up to expectations. Some of the benefits are expected for:

1. Researcher

Help the writer to know the influence of Employee Compensation in towards Employee Performance in the real life.

2. Reader

Help to improve reader knowledge about how important the influence of the level of Employee Compensation in towards their Employee Performance.

3. Company

Help the company to aware that Employee Compensation influenced the Employee Performance.

