

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

In every business, performance of the employees is very important. It is because good performance is one of the way that can help company to grow and develop which will surely impact the business success. Certainly, all business owners want to have employees who are competent and perform well in their own fields. Ulfa and Kasmiruddin (2018) stated that business owners must understand and have a good education about employees' performance so that business owners can improve employees' abilities, skills, and knowledge. In addition, owners can evaluate the performance of employees which can affect the company performance.

To create and increase good employees' performance, business owners can apply performance appraisal and rewards. Performance appraisal is a systematic evaluation to understand employees' performance and ability. The objectives of conducting this program is to evaluate employees to develop their performance, productivity and career plan in the future (Kho, 2018). Becker Professional Education (2017) stated that measuring employees' performance means that management proactively managing employees' performance which will lead to the improvement of company performance.

Reward is a form of appreciation given to a person because of their good performance or success in carrying out a given task according to the target set (Riadi, 2020). Manager can give rewards for employees whose performance are good and meet the company's standards. Applying reward system will bring positive impacts for both company and employees. Company will grow further because employees will perform at their best. As for employees, they will be motivated to perform their best, improve their skills and knowledge.

Performance appraisal and reward has a close relationship because performance appraisal is the basis for giving rewards. According to Shields et al., (2020), performance appraisal and rewards can be a tool to shape and reshaping employees' work attitude, trust and fairness. Moreover, Ciuciu et al., (2016) stated that rewards are mostly based on performance appraisal and it is considered to influence employees' behavior, motivation, satisfaction, and performance.

The research is done at City Kost Palembang. City Kost Palembang was established in 6 June 2016. It is located at Jalan Trikora No. 4658, Palembang, South Sumatra. This business engages in services which includes 24 hour room service, laundry, F&B, entertainment service in the form of television and internet. City Kost Palembang is owned by Mr. Effendi and he is in charge of maintaining the overall performance of the company. Unlike hotels, City Kost Palembang targets on individuals and groups who need rooms with more affordable price because there is no

additional services such as conference rooms, gym, and swimming pool. As City Kost Palembang has lots of employees, maintaining their performance will somehow impact the performance of the company. The deteriorating employees' performance is very obvious on their absence data as follow:

Table 1.1
Employees Absence Recapitulation at City Kost Palembang
Year 2017 - 2020

Absence Category	2017	2018	2019	2020
Medical leave	15	15	19	23
Family leave	11	13	17	23
Personal leave	8	10	12	12
Without notice	18	20	21	24
Total number of absences	52	58	69	82
Percentage of change	-	11.53%	18.96%	18.84%

Source: Prepared by the writer (City Kost Palembang, 2021)

Figure 1.1
Line Chart of All Absence Categories
Year 2017 - 2020

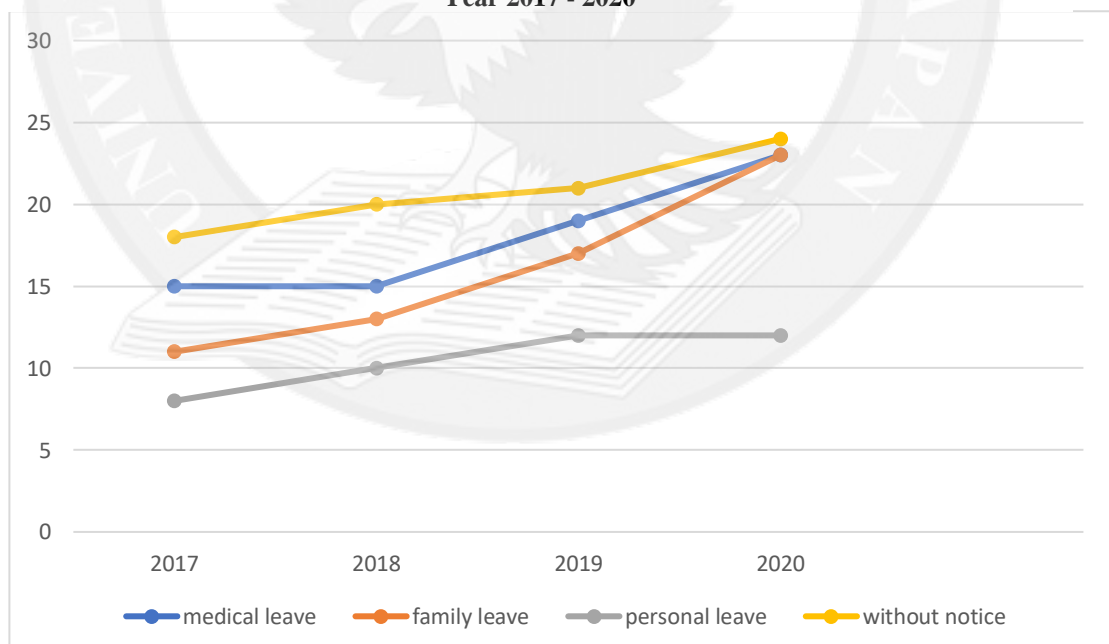


Figure 1.1 Line Chart of All Absence Categories

Source: Prepared by the writer (City Kost Palembang, 2021)

Figure 1.2
Line Chart of Total Number of Absence
Year 2017 – 2020

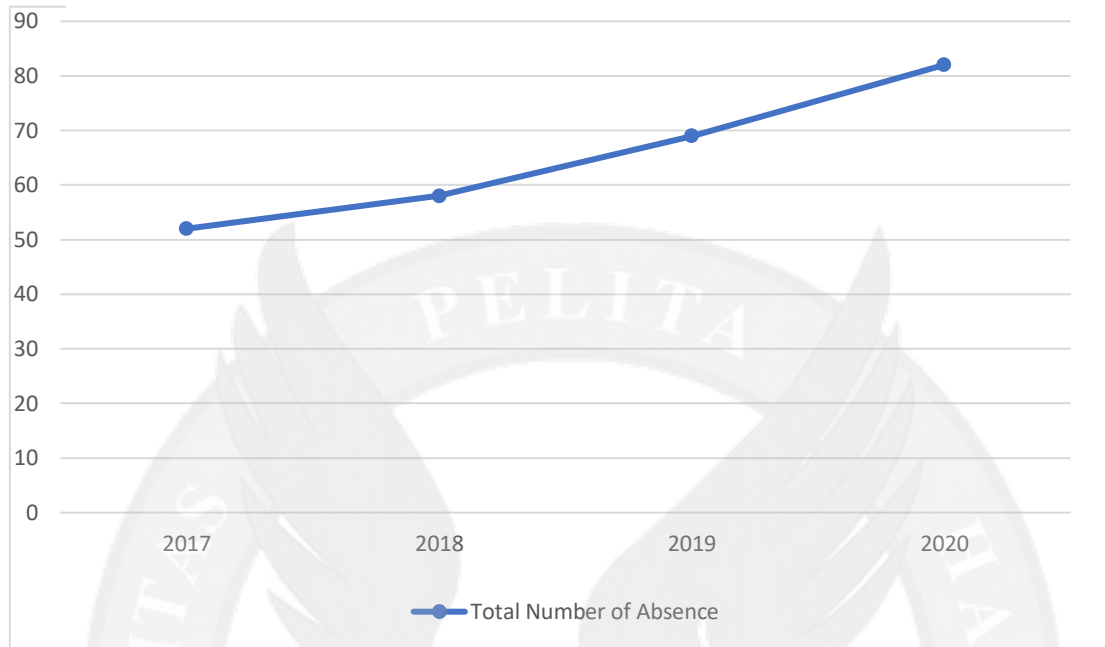


Figure 1.2 Line Chart of Total Number of Absence
 Source: Prepared by the writer (City Kost Palembang, 2021)

Based on Figure 1.1, it indicates that the least number of employees' absence is in the category of personal leave and mostly employees' absence is without notice. This can be a negative sign because most of the absent employees leave without notice, indicating that they do not even care if they do not come to work. Based on the Figure 1.2, it shows that City Kost Palembang has been experiencing an increase of employees' absence from 2017 to 2020. In 2017 to 2020, the total of employees' absence kept on increasing. In 2020, the data shows the highest total number of absences, which is 82. This shows that the higher the total number of employees' absence, the lower employees' performance.

Based on preliminary observation through interviews with Human Resource Manager of City Kost Palembang, Mr. Freddy (2020), this happened because Mr Effendi did not execute performance appraisal because he thought that performance appraisal was not crucial in this business. Therefore, there is no rewards for outstanding employees. This makes those employees unmotivated to perform well which will cause the employees' performance decrease.

Table 1.2
Room Occupancy Rate at City Kost Palembang
Year 2017 - 2020

Year	Room Occupancy Rate	Increase/Decrease
2017	71.36%	-
2018	86.43%	15.07%
2019	54.71%	(31.72%)
2020	46.37%	(8.34%)

Source: Prepared by the writer (City Kost Palembang, 2021)

Figure 1.3
Line Chart of Room Occupancy Rate
Year 2017 - 2020

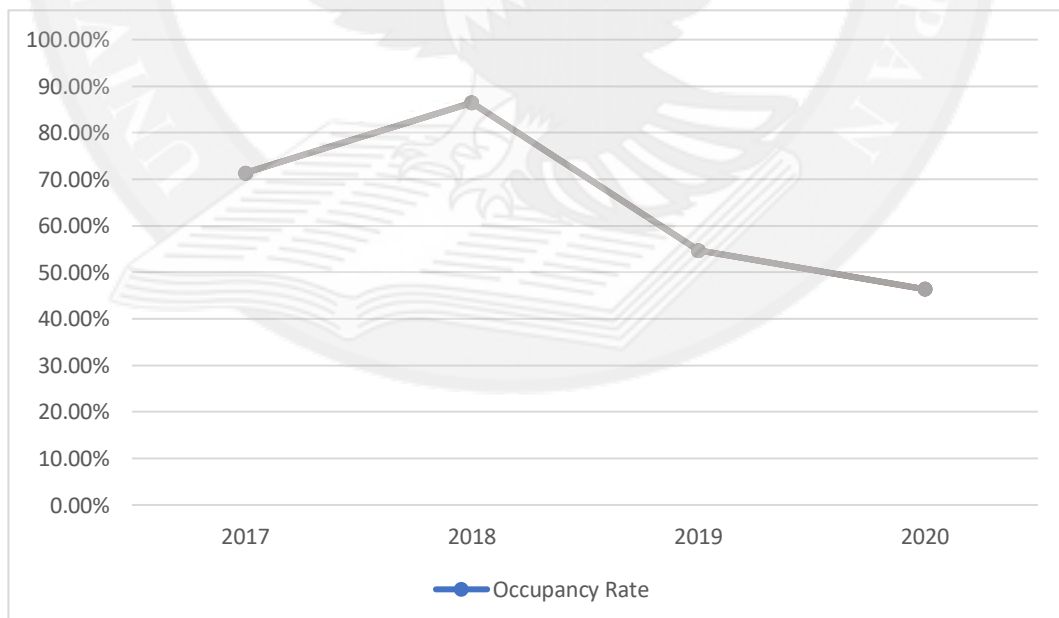


Figure 1.3 Line Chart of Room Occupancy Rate

Source: Prepared by the writer (City Kost Palembang, 2021)

Based on the table 1.2 and figure 1.3, it can be seen that City Kost Palembang has been experiencing a decrease of room occupancy rate from 2017 to 2020. According to the HRM of City Kost Palembang, Mr. Freddy (2020), the highest occupancy rate was at the year of 2018. This happened because Mr. Effendi participated in the Palembang tourism industry service in 2018 when Asian Games was held. However in 2019, there was a huge decrease which was 31.72% compared to 2018. Mr Freddy (2021) explains that it happened because many employees were absent during working hours which caused operations changed and delayed. Thus, the customer felt uncomfortable. For now, most of the customers at City Kost Palembang is the one who rent for months and business travellers.

Since there is a decline in employees' performance in City Kost Palembang, performance appraisal and rewards are really important to be performed. Mr. Effendi does not execute performance appraisal in his business and he does not really care about giving rewards which make employees' performance decline because there is no appraisal and appreciation.

Having realized on the importance of performance appraisal and rewards on employees' performance, the writer chooses the title **“The Influence of Performance Appraisal and Rewards on Employees' Performance at City Kost Palembang, South Sumatra.”**

1.2 Problem Limitation

There are some possible factors that may contribute to the deteriorating performance such as work environment, motivation, performance appraisal, stress, rewards, communication and so on. However, due to limitation of time and budget, in this research, the writer will only focus on Performance Appraisal and Rewards of City Kost Palembang, South Sumatra as the independent variables and Employees' Performance as the dependent variable. According to Longenecker and Fink (1999) as cited in Offei (2019), indicators of Performance Appraisal are systems design, managerial practice, and appraisal systems support. Moreover, according to Kadarisman (2012) as cited in Hasan (2018), indicators of Rewards are the wages, salary, incentive, allowances, interpersonal awards and promotion. Furthermore, according to Koopmans et al (2011) as cited in Widyastuti (2018), indicators of Employees' Performance include task performance, contextual performance, and counter productive work behaviour.

1.3 Problem Formulation

Based on the observation that is done by the writer during the preliminary research in the company, the writer has formulated the following questions to be answered in this study:

- a. How is the performance appraisal at City Kost Palembang, South Sumatra?

- b. How is the rewards provided to employees at City Kost Palembang, South Sumatra?
- c. How is the employees' performance at City Kost Palembang, South Sumatra?
- d. Does performance appraisal have influence on employees' performance at City Kost Palembang, South Sumatra?
- e. Does rewards have influence on employees' performance at City Kost Palembang, South Sumatra?
- f. Do performance appraisal and rewards simultaneously have influence on employees' performance at City Kost Palembang, South Sumatra?

1.4 Objective of the Research

The objectives of this research are as follows:

- a. To describe about the performance appraisal at City Kost Palembang, South Sumatra.
- b. To assess the rewards provided to employees at City Kost Palembang, South Sumatra.
- c. To evaluate the employees' performance at City Kost Palembang, South Sumatra.
- d. To investigate whether performance appraisal have influence on employees' performance at City Kost Palembang, South Sumatra.
- e. To discover whether rewards have influence on employees' performance at City Kost Palembang, South Sumatra.

- f. To analyse whether performance appraisal and rewards simultaneously have influence on employees' performance at City Kost Palembang, South Sumatra.

1.5 Benefit of the Research

There are two types of benefits resulted from the research of Performance Appraisal and Rewards can influence Employees' Performance at City Kost Palembang, South Sumatra, namely:

1.5.1 Theoretical Benefit

The theoretical benefit of this research is to prove whether Performance Appraisal and Rewards will impact Employees' Performance or not. Moreover, this research is also done to gain more knowledge related to the theories about performance appraisal, rewards, employees' performance, and the relationship of the variables.

1.5.2 Practical Benefit

The practical benefits from doing this research are as follows:

- a. For the writer, the research gives the writer wider insight and additional knowledge about the performance appraisal, rewards and employees' performance.

- b. For the company, the research results are expected to be used as a guide to find out the employees' performance and how performance appraisal and rewards can affect employees' performance.
- c. For other researchers, the research can be a basis and reference for the topic which related to performance appraisal, rewards, and employees' performance.

