

CHAPTER I

INTRODUCTION

1.1 Background of the Study

A company that can stand up and earn big profit cannot be separated from the interference of the company's employees. Because of this, human resources will play an important role in the company's final output. Human resource is an important part in a company, because it is where people are join forces to gain certain goal inside the company (Sudaryo *et al*, 2018).

According to Sudaryo *et al* (2018), one of the main purpose of human resource management is to make sure the company's employee have significant motivation, performance, and facility to bring improvement that can satisfy the employee needs. The abundance of natural resources and other supporting resources still cannot show the success of the company without the support from human resources who are able to manage and utilize the potential or resources that are managed by the company.

The development of human resource in a company in its essence is the means to make planning, giving training, giving education, and managing workers in order to obtain significant productivity (Sudaryo *et al*, 2018). Besides that, human resource management is also responsible in giving their employees compensation for the sake of fulfilling their needs. Compensation is an income in the form of money or its substitute that is set according to certain regulation as the remuneration of the employee's job and routine (Sudaryo, 2018).

According to Sudaryo *et al* (2018), compensation divided into direct financial compensation which consist of wage, salary, commission, and bonus; indirect financial compensation which consist of all financial reward that is not included in the into direct financial compensation; and non-financial compensation which gain by the employee through their own work or environment and other psychology and physical factors inside the company.

There are many definitions of compensations according to experts, in conclusion, compensation is a fringe benefits that is given to employees in the form of physical money and its substitute. In carrying out the duties and responsibilities, human resource management often faced with problems that are dynamic. One of the problems is the unachievable target accordance with the planned target by the company and is caused due to employee low performance.

Employee performance as the potential that belong to the human resource management is the power or skill to produce something that is materialistic or non-materialistic, so with high performance, then everything that is planned by the company can be realized soon (Sudaryo *et al*, 2018). Compensation is one of the factors that can affect employee performance, and it is a crucial matter that human resource management should handle.

Inadequate compensation provided by the company will have an impact on employee performance, for example, employees will feel under appreciated and derive low satisfaction from their job which may lead to discontent amongst employees and spoil the spirit in workplace. Poor compensation will also induce low productivity where employees have less motivation to strive for excellence.

Therefore, company must give adequate compensation for employees in order to trigger enthusiasm to improve the performance of the employees themselves.

PT Cipta Prima Perabot is one of the manufacturing company in Medan that produces furniture goods. Based on the interview I conducted, the company was established in 1991 after the owner of the company, Tony, left his brother company. The company is a family business company that is handled by Tony family members and it already has a second generation going on. The company does not have a fixed organizational structure. The company has an offline store in Jl. M. Yamin and receive client for custom request from department stores.

The problem found in PT Cipta Prima Perabot Company based on the interview I conducted with Tony's son, Felix who is the manager of the company, stated that the compensation that is received by the employee are getting reduced due to the employee performance which is getting bad in the company. Supposedly the production of the furniture and fixtures must be produced in the time that has been decided by the company, but lately, based on Felix's observation and interview with him, the workers have a tendency to work slowly and causes the production can be late for 1 to 2 weeks. In result, the production of furniture was late, the delivery of the furniture to the end-user and company was late, and the payment of the furniture was also late. In that case, the compensation that is received by the employee is also reduced because of their salary is actually comes from the buyer's payment. However, the company still pays their employees on time, but with their salary that has been reduced.

Other than that, employees often done their project near to the deadline or the day before the deadline, especially if they are doing a bigger project. They seldom finish their project faster or earlier from deadline, some products were produced late, and some produced on time. Delaying habits are very common and this habit is spread throughout the company. It is assumed by the owner that the employees are either tired of getting too many tasks and must catch up with a big target or they are purposely lazy because of their salary has been reduced.

Table 1.1
Data of Employee Salary in low-level management in Q4 2020

| No. | Month | Amount of Salary for each employee |
|-----|-----------|------------------------------------|
| 1. | September | Rp 4.000.000 |
| 2. | October | Rp 3.500.000 |
| 3. | November | Rp 3.750.000 |
| 4. | December | Rp 3.550.000 |

Source: PT. Cipta Prima Perabot Medan (2020)

Based on the table above, it is shown that the salary of low-level management that the employee receives in the first month is still normal and started to be reduced by 500.000 rupiah in October, and in November they are making progress by adding 250.000 rupiah, but it dropped again in December by 200.000 rupiah.

Table 1.2
Data of Goods Produced on Time and Late in Q4 2020

| No | Goods/Product | On Time | Late | Total of Goods/Product |
|----|---------------|---------|------|------------------------|
| 1. | Wardrobe | 20 | 30 | 50 |

| | | | | |
|----|----------------|----|----|----|
| 2. | Office Table | 22 | 28 | 50 |
| 3. | Office Chair | 19 | 31 | 50 |
| 4. | Dinner Table | 20 | 30 | 50 |
| 5. | Dressing Table | 23 | 27 | 50 |
| 6. | Sofa Bed | 15 | 35 | 50 |

Source: PT. Cipta Prima Perabot Medan (2020)

Based on the table above, it is shown that the number of late productions is higher than the number of on time productions. From the two tables above, it can be seen that the reduction in compensation resulted in a decrease in the on time production, and the number of late production increases.

Table 1.3
Number of average purchases of goods in 2020
between PT Cipta Prima Perabot and its competitors

| Company's / Competitor's Name | Year Established | Number of average purchases of goods in 2020 |
|--------------------------------------|------------------------------|---|
| PT Cipta Prima Perabot | Established in 1991 in Medan | ± 175 |
| Parbutaran Furniture | Established in 1980 in Medan | ± 220 |
| Mustika Perabot | Established in 2000 in Medan | ± 200 |

Source: PT. Cipta Prima Perabot (2021), www.parbutaranfurniture.com (Parbutaran Furniture ,2021), www.mustikaperabot.com (Mustika Perabot, 2021)

Based on the table above, it is shown that there is competition between each furniture company in Medan. This indicates that PT Cipta Prima Perabot must increase and develop their employee performance in the company in order to increase the competitiveness with other competitors. According to Sudaryo *et al* (2018), employee performance is a work result that is gained by someone in doing their job which is charged by the company and the amount of contribution they give to the company in order to achieve company goals. Therefore, to get satisfactory

results and achieve goals, employee performance must be improved in the company.

Based on this explanation above, this research aims for the writing of “The Effect of Compensation towards Employee Performance in PT. Cipta Prima Perabot Medan”.

1.2 Problem Limitation

Based on the topic of the study “The Effect of Compensation towards Employee Performance at PT Cipta Prima Perabot in Medan”, and due to limitation of time, the research will be only focusing on how compensation affects employee performance in the company. This section confirms that the compensation become the independent variable (X), and employee performance become the dependent variable (Y). The indicators for compensation as the independent variable (X) are wage and salary, incentive, allowance, and facility (Jufrizen, 2016). The indicators for employee performance as the dependent variable (Y) are work quality, work quantity, work reliability, and attitude (Jufrizen, 2016).

1.3 Problem Formulation

The following are the question to be answered in this research:

1. How is the compensation received by the employees in PT Cipta Prima Perabot?
2. How is the employee performance in PT Cipta Prima Perabot?
3. How compensation effect the employee performance in PT Cipta Prima Perabot?

1.4 Objective of the Research

The objectives of this research are as follow:

1. To elaborate the compensation received by the workers at PT Cipta Prima Perabot.
2. To describe the employee performance in PT Cipta Prima Perabot.
3. To analyze weather compensation has influence on employee performance at PT Cipta Prima Perabot.

1.5 Benefit of The Research

The results of this study are expected to be useful for companies, future researchers, and as a references or study case for scholars that might have similar issues in the future.

1.5.1 Theoretical Benefit

The results of this research are expected to contribute on development of theories, especially on compensation and its effect on employee performance.

1.5.2 Practical Benefit

- a. For the writer

This research is expected to add knowledge and insight about family business, employee productivity and the effect of compensation towards employee performance.

- b. For the company

This research is expected to be useful for the company regarding how to overcome the future problem discussed in this research and to provide information about how to achieve the desire outcome of the succession process that will sustain the company.

c. For other researchers

This research is expected to be used as references, material, and comparison that provide information for the similar field research in the future.

