

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Human resources are the key in every organization to reach success in today's world, especially for a service company such as in the hospitality industry. The hotel relies heavily on human resources because of its intensity in serving the customers. Every employee in each division, from the front office, housekeeping, food and beverages, room service, and many more, deals with customers. The customers will be satisfied if the service is of a high standard. Hence, the better performance of the employees will bring a positive impact to the company.

The high dependency between employees and customers implies that employees' performance is strongly linked with the customers' satisfaction, which increases the importance of human resources in the hotel. This fact is strengthened by Susskind et al. (2018), which states that employees' performance and the service provided influence customer satisfaction. Customer satisfaction is the satisfaction level of a customer based on the services offered by the company. The higher the services are, the more satisfied the customers can be. Besides, the level of satisfaction is also affected by the customers' previous experience (Sharma & Srivastava, 2018). However, customer satisfaction is difficult to quantify because it may vary from one person to another. Therefore, as a service company, a hotel should ensure that it delivers the highest service quality at all

times so that all customers are satisfied every time they visit the hotel.

This is especially crucial in today's globalization era, where the hospitality industry has become intensely competitive. Thus, the companies in the hospitality industry have to implement the right strategies to remain competitive in the market (Sharma & Srivastava, 2018). Additionally, the company has to ensure that they have a strong competitive advantage, such as improving and maintaining a high employee performance level. There are several ways to improve and maintain high employee performance, such as providing a reward. A reward is something given to the employees as a return for performing efficiently and effectively.

According to Salah (2016, p.22):

“There is a positive significant relationship existed between (extrinsic, intrinsic, social and reward mix) and employees performance; therefore, the issue of rewarding employees using all possible types of rewards matters a lot and should never be neglected by the management of the organizations because deliberate ignorance of rewarding needs will lead to non-motivated, non-committed staff with poor performance.”

Additionally, another research by Muchiri (2016) also agrees that there is a significant relationship between rewards and employee performance. Based on the research's finding, the rewards may be classified into two, namely the intrinsic (trust, recognition, and achievement) and extrinsic (salaries and wages, and bonuses) rewards. Both types of rewards affect employee performance

significantly.

Therefore, the research findings above have concluded that there is an effect of reward towards employee performance. Hence, the companies should use rewards to encourage the employees to enhance their performance to be more effective and efficient and willing to serve the customers better (Ngwa et al., 2019). The more motivated the employees are, the more opportunities they will perform better.

However, although many studies have strongly emphasized the importance of human resources, many companies fail to understand how to motivate them to enhance their work performance. According to Actuate Business Consulting (2017), employees are only enthusiastic, motivated, and engaged during the first six months. After that, their performance started to decline as they feel demotivated. As a result, the company is losing the best opportunity in maintaining its customers, which is through high-performance employees.

Not only that, Seng and Arumugam (2017) also argue that some employees may not be able to perform well because of many issues they face at the workplace, such as stress, depression, and dissatisfied employees. In some cases, the wages or salaries paid are not in accordance with the workload or job scope performed. This demotivates the employees to perform well because they feel not rewarded. As the stress piles up, it can lead to depression. The company will be put in a disadvantage position because the employees' performance will be impact. This can resulted in a decrement of the overall company's performance,

which might affect the company's brand and reputation. This shows how low employee performance might lead to severe problems if it is left unsolved.

Low employee performance occurs in any industry, including in the hospitality industry at Hotel Grand Central Medan. Hotel Grand Central Medan is a well-known hotel for its budget-friendly and strategic location near many tourist destinations. To understand the employee performance at Hotel Grand Central Medan, research has been conducted, and the results are as follow:

Hotel Grand Central Medan has received many positive feedbacks, such as an excellent place to stay, a good place for sleep, and more. This implies that the company has been performing well, satisfying the customers' needs and wants. However, despite its positive feedbacks, Hotel Grand Central Medan still lacks in certain areas. Some customers have expressed their dissatisfaction through online platforms mentioning that Hotel Grand Central Medan needs improvements in employee performance. For instance, some customers have a complaint that the hotel operator is not friendly at all. Besides, another feedback complaint that the receptionists and housekeeping did not help handle a guest's report. This made the customers feel very disappointed. The detailed bad review of Hotel Grand Central Medan can be found under **Appendix L**.

Additionally, the Management in Hotel Grand Central Medan also stated that the employee performance become the obstacle in enhancing the company's performance. This is because the employee often come in late, make mistake, did not posting whenever they came or leave the hotel, and many more. As can be seen from **Appendix M**, there are many employees that come in late. This

impedes the company's growth as they cannot maximize their performance during the working hours. Therefore, this indicates that there is a problem in Hotel Grand Central's employees.

Moreover, Hotel Grand Central Medan only has one reward system which is a bonus of Rp 200,000 for employees who come on time and not absent for a month. However, as this is the sole reward system, it is not sufficient to motivate the employees to perform better. As a result, there are still some employees that do not perform up to the quality required.

From the customers and management's feedback above, it shows that the employee performance is the problem at Hotel Grand Central Medan. Therefore, it signals the issue faced by Hotel Grand Central Medan concerning the most crucial part of operating a hotel business: the inability to maintain a high employee performance level.

Negative feedback from customers is harmful to the company because it will negatively impact the hotel's reputation. Reputation is crucial for any business because it enables the company to attract new customers while maintaining the existing customers. Based on the customers' feedback after staying in Hotel Grand Central Medan and the management's representation, it is understood that the fundamental problem arises due to the low employee performance. As mentioned previously, there is a strong relationship between reward and employee performance, where it is believed that employee performance can be improved and maintained through the provision of reward. Hence, Hotel Grand Central Medan can consider using reward to enhance

employee performance. Therefore, this research takes the title of "**The Effect of Reward towards Employee Performance at Hotel Grand Central Medan**".

1.2 Problem Limitation

Due to the limitation of time and resources, the author determines limitations on this study on reward indicator according to (Franco-Santos & Gomez-Mejia, 2015) and employee performance indicator according to (Pradhan & Jena, 2016) at Hotel Grand Central Medan.

Furthermore, this research is limited to observe the effect of reward towards employee performance at Hotel Grand Central Medan. This research only includes the employees at Hotel Grand Central Medan as the population and sample. The period of the study is conducted in 2021.

1.3 Problem Formulation

Based on the background of the study, the research questions are:

1. How is the reward at Hotel Grand Central Medan?
2. How is the employee performance at Hotel Grand Central Medan?
3. Does reward have effect towards employee performance at Hotel Grand Central Medan?

1.4 Objective of the Research

The objectives of the research are:

1. To understand the reward at Hotel Grand Central Medan.
2. To understand the employee performance at Hotel Grand Central Medan.
3. To know whether reward has effect towards employee performance at Hotel Grand Central Medan.

1.5 Benefit of the Research

This research aims to bring some benefits, which are divided as below:

1.5.1 Theoretical Benefit

This research has some theoretical benefits as follow:

1. This research aims to benefit in developing theory concerning reward and employee performance.
2. This research is expected to be helpful as the study materials for the students in the university.
3. This research aims to benefit future researchers that need references about the relationship between reward and employee performance.

1.5.2 Practical Benefit

The practical benefits of research are as follow:

1. To the author:
 - a. To gain knowledge on the reward system in the real business world.

- b. To gain knowledge on employee performance in the real business world.
 - c. To gain an understanding of how reward affects employee performance.
 - d. To gain problem-solving skills on making a hypothesis, gain a conclusion, and solve an existing problem.
2. To the company:
- a. To understand how reward affects its employee performance.
 - b. To bring a positive impact on Hotel Grand Central Medan.
 - c. To learn whether the current reward system is sufficient to motivate the hotel employees to remain competitive in the hospitality industry.
 - d. To receive recommendations on its future strategy.
3. To future researcher and readers:
- a. To assist the future researchers and readers to conduct another research that is in relation to this research.
 - b. To allow future researchers and readers to understand which data should be used and further updated depending on the time frame.
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