

CHAPTER I

INTRODUCTION

1.1 Background of the Study

When running a business, everyone will use a business organization as it will make sure that their business goals and company can be achieved and run smoothly. If the business activities are more organized, the more one's business activities will be launched to gain profits and can provide benefits to other people and to the communities. As the competition between companies getting more and more intense in the market. Human resources become one of the most important factors in an organization and the organizational success depend on the employee's productivity (Sani Abubakar, 2020). Be it a small-scale company such as organization or on large one like a country.

According to Sundiman (2017), The efficiencies of organizational operation linked with effective resource management. The effect of human resource management also become very important because human resources are one of the main resources in every company. Human factors came with diverse characters, it makes different company create a different environment and management strategies. Every company should be able to see the existing challenges and potential in its human resources. Good human resource governance will help improves the quality of cooperation among employees of the company (Priyatono, 2019).

Moreover, effective human resource governance encourages creativity in every problem-solving process. According to Arulrajah (2017), The creativity and

work efficiency of human resources can improve the overall organizational performance. Human resources are important in every company or organization because they play a big role in mobilizing and synergizing other resources to achieve organizational goals (Riyanto, 2017). All activities in the organization can be realized because human resources act as planners and implementers within the company. Therefore, organizations need human resource management who are able to manage all organizational resources in order to function in accordance to what the organization expects, it applies to both government-based organization and private organizations.

According to Riyanto (2017), If the company can identify what factor can improve the employee's performance then good employee performance can be achieved. One of the factors toward the success of an organization was because the existence of a capable and skilled employees who have high morale, so that satisfying work results can be what the organization expected. In reality, not all the employees have both the ability and the skills that can go according with the requirements that the organization want and expect, sometimes the employees not have high morale or the performance is not what the organization expected. Every employee that provides good work performance for the progress of the company need to be appreciated by the company by providing appropriate compensation for the work performance that employees have given to the company. According to Malinda O, Dewi F,G, Gamayuni R.R (2019), Incentives is a bonus beyond standard salary that given to the employees that have extraordinary performance.

Incentives is the external temptations and motivating factors for the employees to work better and fulfilling the employee's other needs.

Another factors that can also influence the employee performance is work environment, if the company have good working environment for the employees, the employees will be able to carry out the job more comfortably and get a better work result. According to Riyanto (2017), A good working environment can help improve the employee's performance and a positive relationship between working environment and employee's performance. The physical environment affects employee's performance more than the non-physical environment. Work environment has a positive influence over employee's performance at the Jakarta Metropolitan I National Road Implementation Work Unit (Pratama, G.D, 2020). This research is being conducted by interviewing the manager of the company and giving questionnaires to the respondents (office employees of PT Agrindo Anugrah Alam Raya) to answer.

The method that was used is descriptive quantitative research. Descriptive research is a method that serves to describe or provide an overview of the object under study through data or samples that have been collected as they are, without analyzing and making general conclusions. Quantitative approach refers to research design involving deductive thinking to prove hypotheses which in turn will support or reject a theory. The writer is using descriptive quantitative because quantitative research method is one type of research whose specifications are systematic, well-planned, and clearly structured from the beginning to the making of the research design. The research method, which is based on the philosophy of positivism, is

used to examine certain populations or samples, and collect data using research instruments.

The purpose of using descriptive and quantitative research is to explain a situation to be studied with the support of a previous research to strengthen the writer analysis in making a conclusion, where the research results are obtained from the results of the calculation of the indicators of the research variables and presented in the writing report. This research is aims to determine whether there was effect in incentives and work environment on employee's performance at the office of PT Agrindo Anugrah Alam Raya, Medan. PT Agrindo Anugrah Alam Raya as the research object is a company that its headquarters located in Medan, North Sumatera. It was a family business-oriented company that first opened by Mr. Tan Eng Hoa in 2017 and run by him before the company being handed down to his son Mr. Ali Tanin. PT Agrindo Anugrah Alam Raya engaged in trading/ export imports of agricultural product. The reason the writer choose PT Agrindo Anugrah Alam Raya office as a research object is because the company experience several problems with the employee performance, some of the employees didn't reach the target that being set by the company and often absent and always asking the permission of leave and the employees seems to be easily distracted when working. Because of that, the performance of the all the employees in the company keep going down. As company profit is in line with the employee's performance , improving employee's performance is a priority for all company.

When running a company, it's inevitable for the company to have competitor that engaged in the same industry. This are several competing companies of PT Agrindo Anugrah Alam Raya, Medan in Indonesia:

Table1. 1 Competitor of PT Agrindo Anugrah Alam Raya, Medan

No.	Competitor's Name	Products	Year of Establishment
1	PT. Agronusa Berkah Jaya	Seafood, Tubers, Spices and Grains	2000
2	PT. Sari Makmur Tunggal Mandiri	Coffee, Mace, Clove, Cassia, Pepper and Cocoa	2014
3	PT. Putra Nusa Mandiri	Glutinous rice, Nuts & Grains and Spices & Seasonings	2000
4	PT. Karya Baru Indonesia	Rice, White Glutinous, Black Glutinous, Peanuts, Green Beans, Sesame, Candlenut, etc.	2013

Source: Data Processed by the Writer (2021)

From the table above, it can be seen that the company have various main competitors that engaged in the same industry and also export and trading of the spices product to other countries. This competition makes the company's business development in the country more hard and more competitive, as there are many companies that also have the same products as PT Agrindo Anugrah Alam Raya. So, it's necessary for the company to have a good quality of human resources in order to have an advantage from the others company, as having a good human resource can maximize the work of the employees and make the company get more profit.

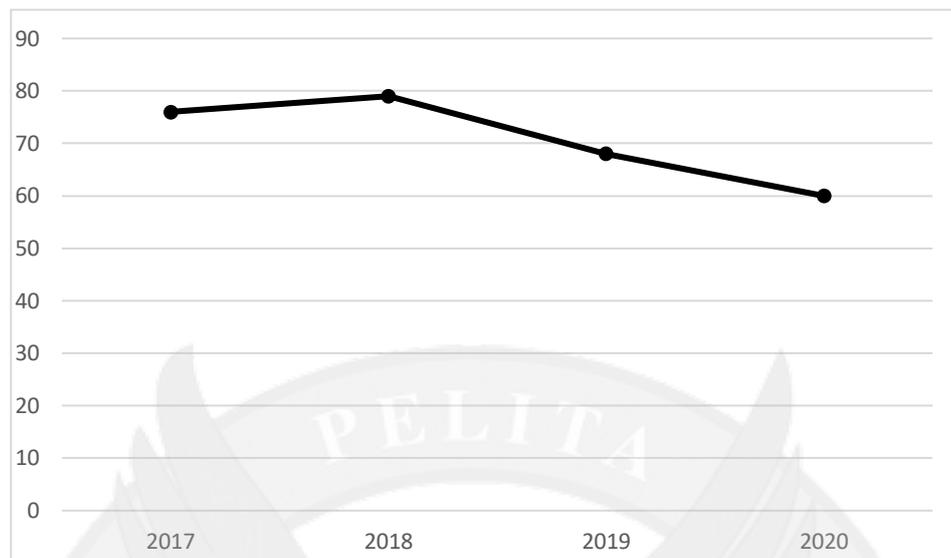


Figure 1. 1 Average of Employees' annual KPI

Source: Data Processed by the Writer (2021)

From the chart above, annual employee's Key Indicator Performance (KPI). The company take evaluation annually to know how well the performance of the employee's each year. The score was given by the manager and there will be factors that can deduct the score such as, the absenteeism of the employees, lateness of coming to the office , mistake when doing works, late submission of work and tardiness. The data shows the fluctuation on the employee's performance from year 2017 until 2020, it means that when employees didn't work well it will affect the KPI scores. The KPI score from 2018 until 2020 keep going down, it can become the indication that the employees didn't like their own workplace or less satisfied with the work job.

Table 1. 2 Employee Data from 2017 to 2020

Description	Years			
	2017	2018	2019	2020
Number of Employees	25	36	38	41
Resign Employees	6	9	15	6
New Employees	17	11	18	3
Total Absenteeism of the Employees (yearly)	74	98	79	124
Total Lateness of employees (yearly)	89	106	146	155

Sources: Prepared by the writer (2021)

From the table above, employee's total absence and lateness are increasing from year to year. There is a high number of total absence and resign of the employees, it can become the indication that the employees didn't like their own workplace or less satisfied with the work that the company given. The employees that are less satisfied with their job can be resulting in the decrease of the company performance and get less profit since employees are the one who drive company activities and the productivity of the company will get lower from the target that are being set by the company.

The factors that make the employee's lack of spirit when doing their job is because the employee's rarely get rewards or incentives from the employer, the employees usually got their incentives only on several occasion such as holiday allowance or better known as THR (Tunjangan Hari Raya) which only happen once a year and the employees who works diligently and achieve the targets that being set are not rewarded with bonuses or vocational rewards and other kind of incentives.

This causes the employees less motivated when doing their job and didn't maximize their full potential because they feel underappreciated and receive no recognition from superiors or company. The companies also rarely provide activity or vacation for their employees yearly thus resulting in the lack of kindship and friendship. Employee relationships may be strengthened by spending the holidays together since these activities allow them to communicate effectively with their coworkers.

Other factor is the work environment of the office of PT Agrindo Anugrah Alam Raya, Medan does not allow the employees to work comfortably. As there is no partition between one employee to another in the office. As there is no partition or personal cubicle for each employee, it means that there is no privacy between employees that work there. The employees also can hear what other people speak, which in turn will make the employees distracted and disturbed when working. Other factor such as room temperature, lighting, noises, and the relationship between coworkers, this kind of problem can also lead to the employees not to complete their task on time, neglecting their task, procrastinating the work that will eventually make a decline in employees' performance.

Based on the problem stated above, knowing that incentives and work environment having an effect on the employee's performance, the writer decided to conduct research with the title **“THE EFFECT OF INCENTIVES AND WORK ENVIRONMENT TOWARDS EMPLOYEE'S PERFORMANCE AT PT AGRINDO ANUGRAH ALAM RAYA, MEDAN”**. With this research the writer hoped to be able to bring positive benefit in enhancing employees job performance so that company could achieve their goals or objective.

1.2 Problem Limitation

To be more focused on this research, the writer decided to conduct the research by setting up several limitations, such as:

- a. The data will be gathered only from PT Agrindo Anugrah Alam Raya office, at Jalan Let. Kol Martinus Lubis No.17D, Medan, Sumatra Utara, Indonesia.
- b. Due to the geographical, time and cost constraints, the respondents were only taken from the employees of PT Agrindo Anugrah Alam Raya that are in Medan, Sumatera Utara, Indonesia.
- c. The research only uses three (3) variables, which were: incentives as variable X1 (independent variable), work environment as variable X2 (independent variable), and employee's performance as variable Y (dependent variable).

1.3 Problem Formulation

Based on the background study above, the writer can take problem formulation as follows:

- a. Do incentives have an effect towards employee's performance at PT Agrindo Anugrah Alam Raya, Medan?
- b. Do work environment have an effect towards employee's performance at PT Agrindo Anugrah Alam Raya, Medan?
- c. Do incentives and work environment simultaneously have an effect towards employee's performance at PT Agrindo Anugrah Alam Raya, Medan?

1.4 Objective of Research

The purpose of this study is:

1. To know if incentives have an effect towards employee's performance.
2. To know if work environment has an effect towards employee's performance.
3. To know if incentives and work environment simultaneously have an effect towards employee's performance.

1.5 Benefit of the Research

The benefit of this research will be divided into two (2), which are as the follow:

1.5.1 Theoretical Benefit

This completion of this study is expected to give a better understanding about how incentives and work environment will have an effect towards the employee's performance. Thus, this study is expected to be an extra knowledge for future researchers or readers who will conduct the similar topic.

1.5.2 Practical Benefit

The writer expected that this research can deliver three (3) benefits, which are as the follows:

1. For the writer

This research can improve the knowledge about the effect of incentives and work environment towards employee's performance in the real-life settings.

2. For PT Agrindo Anugrah Alam Raya, Medan.

This research is expected to be a platform to give information about incentives, work environment, and employee's performance at PT Agrindo

Anugrah Alam Raya, Medan so that it can become the concern for the leaders when making future policies.

3. For Future Researchers

This research is expected to bring additional references in learning how incentives and work environment effects the employees and how it influences their performance.

