

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Throughout today's competitive world, one of the resources that play a significant role in reaching the goals of the organization is employees. According to Torrington et al. (2017), in order to attain the goals and objectives of the business, organizations require numerous sources to operate such as capital to fund their business, land and buildings to function, equipment and raw materials to produce products or deliver services, and distribution network to distributed and sell the products or services. Therefore, to provide organizations with know-how, ideas, and manpower, human resources are needed in organizations (Torrington et al., 2017).

According to Noe et al. (2016), Human Resource Management (HRM) concentrates on recruiting and selecting people, training and developing people who work in it, evaluating performance, rewarding, and creating a positive work environment. Good human resource management makes employees and customers more satisfied, and companies will be more innovative and productive, which will lead to a good reputation in the community (Noe et al., 2016).

One of the crucial parts that can determine the organization's success or failure is human resources. According to Widayanti (2018), human resources will do the planning and preparation, evaluate, obtain resources, and apply strategy in the organization as human resources are one of the assets needed in running a

business. Therefore, in order to get better results, resources such as machinery or equipment must also be controlled and supported by human resources, as human beings can think, feel, prepare and plan, while machinery and other materials cannot (Setiadi et al., 2016).

Akter and Husain (2016) stated that by creating a good compensation package, the company probably could make employees get better results and can make skilled and competent employees remain in the company. Qureshi and Sajjad (2015) stated that the reward and benefits received by the employee could determine the employee's standard of living, the position at work, employee's image, employee's commitment and dedication to the company, as well as employee's performance. It is also stated that compensation is not only essential for employees, but it is also significant for the company as the compensation might determine the cost of the production and attracts competent and knowledgeable employees to the company (Qureshi & Sajjad, 2015).

One of the methods that the company uses to motivate and reward the employees with the expectation to increase the performance and satisfaction of the employees is compensation. According to Arristra et al. (2019), compensation is given to the employees in the form of money or benefits in exchange for the things the employees do for the business. If the reward offered by the company can satisfy the basic needs of the employees, then there might be a strong enthusiasm that can encourage employees to work (Arristra et al., 2019).

According to Widagdo (2018), performance is the employees' behavior and value at work that can strengthen employees' intentions in carrying out tasks. Widagdo (2018) also stated that the employee's good performance is required as it can drive productivity and reach the company's vision and mission as planned. Employee performance probably has a huge influence on deciding a company's growth, employees' motivation to do a good job, and the accomplishment of the company objectives (Widagdo, 2018).

PT Medion Ardhika Bhakti is a family-owned business that engaged in the production and distribution of veterinary medicines, vitamins, vaccines, and poultry equipment. PT Medion Ardhika Bhakti is a strategic business unit established by PT Medion Farma Jaya, in 2014, to market and distribute its product in the domestic market. PT Medion Ardhika Bhakti as well as PT Medion Farma Jaya are founded by Drs. Jonas Jahja. The children of Drs. Jonas Jahja, which are Irena Jonas, Melina Jonas, and Elvina Jonas are participated in running and manage the company as the second generation. PT Medion Ardhika Bhakti, Binjai, is located on Jl. Binjai-Kuala no.88C, Kel. SeiSekala, Kec. Selesai, Kab. Langkat.

Table 1.1 The Attendance of The employees of PT Medion Ardhika Bhakti, Binjai, from July to December 2019.

Month	Department					Total absent per month	Percentage
	Finance & Accounting	Production	Purchasing	Sales	HR		
July	1	3	0	1	0	5	9.62%
August	1	5	0	2	1	9	17.31%
September	0	5	1	1	0	7	13.46%
October	2	4	1	2	1	10	19.23%
November	2	5	1	2	1	11	21.15%
December	2	7	1	4	2	16	30.77%

Source: Prepared by the writer (PT Medion Ardhika Bhakti, Binjai, 2020)

From table 1.1, it shows that the absence of the employees of PT Medion Ardhika Bhakti, Binjai, kept increasing from July to December 2019. It can be seen that the highest absenteeism is in December, it might be happen because the employees were vacationing with their family at the end of the year. As a result of high absenteeism, most of the employees' work was delayed, which can affect the achievements of company targets or goals, as well as company productivity. The customers often complained that the employees made mistakes such as making the wrong invoice, delivering wrong items, or delivering to the wrong address, and sometimes the customers feel that it is difficult to communicate with the employees. As a result, most customers move to other competitors. It all might happen because the employees are still not satisfied with the motivation and the amount of compensation given by the company.

Based on the problem above, the writer feels interested in researching with the title of **“The Effect of Compensation on Employees Performance at PT Medion Ardhika Bhakti, Binjai.”**

1.2 Problem Limitation

Due to the limitation of time and knowledge, the writer will limit the scope to only focus on the Binjai branch office, and will focus this research only on compensation as an independent variable (X) and employee performance as a dependent variable (Y). The writer will use the compensation indicators by Mondy and Martocchio (2016) which include base pay (salary), bonus, health insurance,

retirement program, and employee service program. The indicators for employees performance as variable Y adopted from Hery (2019), which include productivity, quality, timeliness, resources utilization, and cost.

1.3 Problem Formulation

The following are the research questions formulated by the writer in this *skripsi*, which are:

1. How is the compensation package at PT Medion Ardhika Bhakti, Binjai?
2. How is the employees performance at PT Medion Ardhika Bhakti, Binjai?
3. Does compensation has an effect on employees performance at PT Medion Ardhika Bhakti, Binjai?

1.4 Objective of the Research

The following are some objectives of this research that need to be answered, which are as follow:

1. To know about the compensation package at PT Medion Ardhika Bhakti, Binjai.
2. To assess the employees performance at PT Medion Ardhika Bhakti, Binjai.
3. To discover whether there is an effect of compensation on employees performance at PT Medion Ardhika Bhakti, Binjai.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The result of this research can be used to add or expand the knowledge of the researcher in conducting theory development, especially about compensation and employees performance.

1.5.2 Practical Benefit

The following are the practical benefits of conducting this research:

1. For the writer, this research can be used to increase the writer's understanding and knowledge related to compensation and employees performance.
2. For PT Medion Ardhika Bhakti, Binjai, this research may provide information, recommendation, and suggestion on how the company can improve employees performance through compensation.
3. For other researchers, this research can be used as an information and reference for further studies.

