

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Over recent decades, business world has evolved well to be more complex and more consideration are needed by companies to be taken in their strategies as the business world growing massively, the competition also become fiercer. Consideration that business need can exist of internal and external aspect. External aspect like customer mostly affect company in their sales, the other is internal aspect where it is what determines what company capability and is usually what called as resources. Resources that a company have is what determines the capability of those company, whether a company is running well or not. Resources will impact value proportion, sustainability, profitability and many other factors of the business. Therefore, resources are main aspect that runs company and the business that a country have.

As stated above, resources are main part of the company and business world. It is a fact that Indonesia were one of the biggest natural resource's countries in the world, with fertile soil all across the country making agriculture and plantation as one of the biggest industries in Indonesia. Thus, it is believed that agriculture and plantation companies as big companies in Indonesia as it can contribute values to support the national economic development.

According to Bhasin (2019), there are different 4 types of resources that a business has, that are physical resources, financial resources, intellectual resources and last is human resources. Human resources can be considered as the type of resource that lots of people overlook, as human resources that a company have is basically who runs the company, this is especially true to companies that need human to operate like agriculture and plantation.

Leonard (2019) stated that business owners need employees to get the job or operation done, because employee that performs well is critical to determine the overall success of the company. Therefore, employee performance is one of the most important factors to determine the business overall performance. What is more, the statement is more strengthened by the fact that most agriculture and plantation companies' activity cannot be separated from employee performance. In the context of palm oil companies, employee performance determines the production which production will affect sales as these employees are the ones who operates the farm. The benchmark in measuring success and sustainability of a company can be seen from its employee performance which affected by job satisfaction.

Job satisfaction can be the main factor for maintaining the success and sustainability of its business as job satisfaction are related with employee performance. To be precise, MBA Skool Team (2020) stated that job satisfaction is a state where employee feels self-motivation and satisfied with their job where its triggering them to deliver their best of capability or in other words their

performance. Technically, job satisfaction has direct effect towards employee which satisfaction are related to happiness of the workers which these job satisfactions are related to compensation and work environment. Indeed.com (2020) stated that work environment is made up of all elements that will affect someone productivity of how they will work. Therefore, affecting how someone would feel about their job which will later affect their overall performance.

Work environment according to Personalhетен (2019) are a term where individuals or groups doing activities supported by facilities in the working places divided into two that are physical and phycological. A good working environment is one of the most important elements in making you feel good and for our activities to function and develop.

Compensation is payment that company gives or obligated to pay their employee. To be specific, Kappel (2018) stated that compensation is the total of cash and non-cash payments that a company gives to an employee in exchange for the work they do for the company. Compensation given to employee may affect in efficiency and effectiveness that declined which employee will not be happy with their job thus lowering their performance rate in that company.

PT Cahaya Rubi Sentosa is a company that focuses on palm plantations, not only that but also the collection and trade of oil palm fruit. The company already established since 1995 as CV Subur, later at 2011 they upgraded the firm into PT Cahaya Rubi with deed of incorporation number 24. PT Cahaya Rubi Sentosa is a family business as every family member is very involved in the growth of the company. The company started from 2 brothers, name Anthony and Paidi, which

each both of them have share of the company 50%, but later Paidi children and wife don't want to be included in the company deed therefore Paidi also not involved in the business no more and he already got his asset distributed according to each heir. Now the business revolves around Anthony and his family, where Anthony himself act as president commissioner, 3 of his children also involved where his son Suwandy act as president director and his daughter Nilawaty act as commissioner, his other son Irwan act as field manager, also another family member is Merry who is Suwandy wife that act as financial manager. The share of this company was divided to 80% to Anthony, 10% to Nilawaty and another 10% to Suwandy, making Anthony as dominant shareholder since he is the father. Therefore, all of the company share is owned by the family and family members are very involved in the company.

PT Cahaya Rubi Sentosa currently facing a foreseeable problem where their production rate can be seen at continuous down from year to year despite, they uses the same plantation farm ground and keeping the palm oil seeds in the same amount at both farm. But later the possibility can be minimized to its employee performance as PT Cahaya Rubi Sentosa use the almost same amount of employee every year where they keep it consistent at around 30, there might be some addition or reduced but the number is consistent at around 30 meaning same amount of employee but production was reducing. To explain how relied a palm oil firm to its employee, they are responsible to nursery, fertilization, settlement (pruning), pest control, harvest and then delivering the harvest to storehouse. All the critical part of the production of TBS were basically handled by employee.

Palm oil is a type of harvest that needs a lot of care and experience from employees to harvest it. Palm oil will be harvested when it reaches a state of *Tandan Buah Segar* (TBS), as harvester should keep in mind the interval days of the palm oil and the *bondrol* of the harvest as it may make the harvest too raw or become rot. Therefore, the production of the company is pretty much relying on the employee performance as those employees are who do the activity of the company, plus in PT Cahaya Rubi Sentosa not technically add or reduce any other factors to affect their production like reduced of farm area or anything or even amount of raw material. Add to that, PT Cahaya Rubi Sentosa in every crop rotation or per period always uses their own capital plus borrowing from bank which may affect compensation PT Cahaya Rubi Sentosa gave to their employees, plus the environment in the workplace as organization faces many new action in the growth of the company or world situation like pandemic, employee who always changing and physical aspect as well like supervising and facility for employees that can affect the performance through job satisfaction that employee have.

As this research is conducted on PT Cahaya Rubi Sentosa, hereby is the table showing the production of PT Cahaya Rubi Sentosa.

Table 1.1 The Inconsistency of Production Amount of PT Cahaya Rubi Sentosa from 2019-2021 (in Tonase)

Year	TBS Production Dumai Plantation	TBS Production Rumbai Plantation	Total	Percentage of change
2019	16,723.8	11,182.7	27,906.5	-
2020	16,881.385	8,208.676	25,090.061	10.09%
2021	13,092.95	11,752.41	24,845.36	0.98%

Source: PT Cahaya Rubi Sentosa (2022)

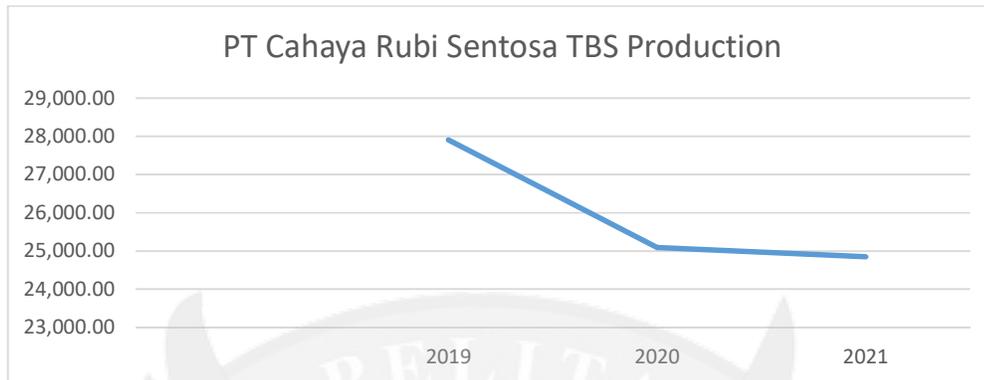


Figure 1.1 PT Cahaya Rubi Sentosa Production
Source: Prepared by the writer (2022)

From the table and chart above, there are some inconsistency in the production of the PT Cahaya Rubi Sentosa from year of 2019 to 2021, which from the data from 2 of their plantations that is Dumai plantation and Rumbai plantation. Dumai plantation have a area covering of 200 hectare while Rumbai plantation have 65 hectare area covering (still expanding), it can be seen from the data that Dumai plantation have a bigger production than Rumbai plantation.

PT Cahaya Rubi Sentosa set its production expectation every month to be at least 2 tons which is already included both Dumai and Rumbai plantation, that means yearly production expectation is 24 tons which PT Cahaya Rubi Sentosa could still manage in that years where 2019 is 27 tons, 2020 is 26 tons, and 2021 is 24 tons, but as we seen in that data there are some inconsistent occurred where the total production each year still reach their expectation but the number of production is decreased each year passes which will eventually reach to below of their production expectation. And the most important part is the employee numbers technically are the same that is around 30, there might be some addition or reducement but PT Cahaya Rubi Sentosa keeps the employee number consistent in 30 which to be suspected that employee performance was the main problem of the

decreasing production.

Therefore, based on the discussion and inconsistencies of production at PT Cahaya Rubi Sentosa from the table, this research is conducted to test and explain the effect of compensation, work environment to employee performance through job satisfaction as intervening variable. In accordance with the discussion, this research will take title: **“The Influence of Compensation and Work Environment towards Employee Performance through Job Satisfaction as Intervening Variable at PT Cahaya Rubi Sentosa, Pekanbaru”**

1.2 Problem Limitation

Due to the limitations of time and budget, this research was conducted by setting up several limitations, such as:

- a. The data of this research are gathered from the head office of PT Cahaya Rubi Sentosa located at Jalan Soekarno Hatta, Pekanbaru, Riau, Indonesia.
- b. Due to geographical, time, and cost differences, the respondents were taken from employees of PT Cahaya Rubi Sentosa located at Pekanbaru, Riau, Indonesia.
- c. The research uses four (4) variables, which are: Compensation as variable X1 (independent variable), Work Environment as variable X2 (independent variable), Job Satisfaction as variable X3 (intervening variable), and Employee Performance as variable Y (dependent variable)

1.3 Problem Formulation

From the issue discussed above, the problem formulation of this research will be as follows:

1. Does compensation significantly influence job satisfaction at PT Cahaya Rubi Sentosa, Pekanbaru?
2. Does work environment significantly influence job satisfaction at PT Cahaya Rubi Sentosa, Pekanbaru?
3. Does compensation significantly influence employee performance at PT Cahaya Rubi Sentosa, Pekanbaru?
4. Does work environment significantly influence employee performance at PT Cahaya Rubi Sentosa, Pekanbaru?
5. Does job satisfaction significantly influence employee performance at PT Cahaya Rubi Sentosa, Pekanbaru?
6. Does job satisfaction mediate the effect of compensation on employee performance at PT Cahaya Rubi Sentosa, Pekanbaru?
7. Does job satisfaction mediate the effect of work environment on employee performance at PT Cahaya Rubi Sentosa, Pekanbaru?

1.4 Objective of the Research

Based on the problem formulation, this research aims to provide explanation and understanding on:

1. To analyze whether there is influence of compensation towards job satisfaction at PT Cahaya Rubi Sentosa, Pekanbaru.
2. To analyze whether there is influence of work environment towards job satisfaction at PT Cahaya Rubi Sentosa, Pekanbaru.
3. To analyze whether there is influence of compensation towards employee performance at PT Cahaya Rubi Sentosa, Pekanbaru.
4. To analyze whether there is influence of work environment towards employee performance at PT Cahaya Rubi Sentosa, Pekanbaru.
5. To analyze whether there is influence of job satisfaction towards employee performance at PT Cahaya Rubi Sentosa, Pekanbaru.
6. To analyze whether the job satisfaction mediate the effect of compensation towards employee performance at PT Cahaya Rubi Sentosa, Pekanbaru.
7. To analyze whether the job satisfaction mediate the effect of work environment towards employee performance at PT Cahaya Rubi Sentosa, Pekanbaru.

1.5 Benefit of the Research

This research is to provide a better understanding and explanation as below:

1.5.1 Theoretical Benefit

As far as the educational context is concerned, the accomplishment of this research will stand as a means of extra learning about the influence of compensation and work environment on employee performance through job satisfaction. As a

result, it can enrich the writers understanding and improve future educational discussions of the similar topics.

1.5.2 Practical Benefit

- a. For the writer, this research would improve writer experience and knowledge in the influence between compensation, work environment as well as job satisfaction towards employee performance in real-life setting.
- b. For the company, this research is expected to use as guidelines on how to improve the employee performance by emphasizing on employee compensation, work environment as well as job satisfaction.
- c. For other researchers, this research could be use as references when researchers are conducting research on similar topic.

