THE EFFECT OF DIRECT COMPENSATION AND PROMOTION ON THE EMPLOYEES’ PERFORMANCE

(Case Study at Department of Garment, PT Seikou Seat Cover, Indonesia)

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ABSTRACT
The study aimed to reveal the effect of both direct compensation and promotion on the employees’ performance at the Garment Department, PT Seikou Seat Cover. The data were obtained through questionnaires and then subsequently processed using IBM SPSS Statistics 23.

The results of this study showed that there were good responses from the respondents to the direct compensation provided by the Company; as well as to the promotions and the employees’ performance. Meanwhile, the results of partial test (t test) showed that when the direct compensation was higher, there was also more improved employee’s performance. Yet, the promotion did not directly affect employee performance.

Furthermore, the results of hypothesis test simultaneously showed that the value of F count was greater than that of F table so that it indicated a significant effect; thus, it can be concluded that direct compensation and promotion significantly influenced the employees’ performance. Therefore, both direct compensation and promotion affected the performance of the employees at the Garment Department, PT Seikou Seat Cover.

Keywords: direct compensation, promotion, performance

1. Introduction
In a corporate development, human resource management plays a very important role which is indispensable in order to achieve its goals. The management of human resource takes into account all aspects related to the company itself and the employees. In a company’s perspective, human resources are the main assets in its operational activities. Employees, as human resources in a company is a great potential to carry out its activities. The potential of human resource is to be positively exploited as optimally as possible so as to be able to achieve optimum results in accordance with a company’s goals. The achievement of the corporate’s goals does not solely depend on modern equipment, facilities and complete infrastructure; rather, it depends on human resources or employees. Without the role of humans, in spite of the availability of various factors, it will not function properly.

Employee’s performance becomes a benchmark of the company’s achievement toward its goals. The employee is one of the corporate’s success factors in addition to the facilities and infrastructure it establishes since a good performance employee will enhance corporate’s productivity.

Today's business world is demanded to create employees with high performance for the company’s development. Therefore, it is the companies’ responsibilities to build and improve the performance in their environment. Performance appraisal refers to a formal and structured
system which is used to measure, assess and influence the characteristics related to work, behavior and results, including absence rates. It is worth noting that employee’s performance in an organization does not always improve; rather, it sometimes declines. Creating high performance employees is a demanding task since their performance cannot improve if the organization is not able to create such conditions which can encourage and enable them to develop and improve their abilities and skills optimally for positive contributions to companies.

Most of Indonesian’s textile production is concentrated in Java Island (constituting 94%), populated in large cities, namely Jakarta, Bandung, and Semarang areas as the main production hubs. However, most of textile products in these cities are more concentrated in Bandung area. In the region, there are more than 300 textile companies spreading across three regions, namely in Bandung Regency, Bandung City and Cimahi City (Suseno, 2009). One of these textile companies located in Bandung is PT Seikou Seat Cover as one of the companies engaged in the manufacturing of garments and cover chairs located in the district of Bandung Katapang, employing a total number of 816 labors to date.

2. Literature Review

Compensation

Employees who work in an organization certainly need a fair and sufficient compensation, preferably, it can be quite competitive compared to other organizations or companies. It is because a good compensation system will greatly affect one's morale and productivity. A good compensation system needs to be set and supported by a rational method which can govern an employee to be paid or compensated according to the scope of work and responsibilities he or she is authorized. According to some authors, a compensation can refer to several following passages. Hasibuan (2017: 118) defined that compensation is all income in the form of money, whether it is direct or indirect goods received by employees in return for the services they provide to the company. The arrangement of effective compensation systems is vital in human resource management because it helps attract and retain talented workers. In addition, the company’s compensation system has also an impact on its strategic performance. Meanwhile, according to Dessler (2013: 352), a compensation is defined as all forms of payment or rewards for employees as a result of their work. In addition, it is also referred to as a combination of financial and non-financial rewards given to the employees as a compensation for their performance an organization provides (Armstrong, 2009). A compensation comprises the total money (wages, salaries, commissions), incentives, benefits, privileges and gifts the organization provides to its employees in return for their contribution to the organization (Moorhead and Griffin, 2013). On the other hand, Suparyadi (2015) argued that a compensation consists of two, financial compensation, whether it is direct and indirect; and the second one is non-financial compensation. The direct financial compensation consists of payment to the employees in the form of salaries, wages, benefits, incentives and deferred payments. It is the minimum compensation an employee must receive, consisting of salary or wages (including basic salary/wages, fixed benefits), and other fixed components, such as health benefits and holiday/religious allowances. Meanwhile, the indirect one is the compensation based on policy and/or due to special considerations, such as professional allowances, meal and transportation allowances, bonuses, leave benefits, production and vacation services.
Direct compensation
According to Nawawi (2008), direct compensation is a reward better known as salary or wages paid permanently to an employee based on a fixed period of time. Adding to the definition, Wibowo (2011) stated that it is a management compensation, such as wages and salaries or pay for performance, such as incentives and gain sharing. Provision of an appropriate compensation is important for employees; in addition to fulfilling their basic necessities, giving compensation is an appreciation of the company for their work potential, which can affect their working behavior.

Promotion
In addition to the compensation, job promotion factors are also found to influence the fluctuations of an employee’s performance. According to Hasibuan (2016), promotion is a move which enhances the authority and responsibility of employees to a higher position in an organization, resulting in greater obligations, rights, status and income. According to Miner & Crane, promotion is basically a selection process; therefore, this strategy will be very effective if implemented. Thus, those who perform the best must deserve to promotion. However, under the managerial level, promotions are frequently made on the basis of seniority, instead of ability. Moreover, Kesarinaldi (2010) found that promotion is very influential on the employees’ motivation and job satisfaction which eventually has a direct impact on their performance. If there is an opportunity for every employee to be promoted on the basis of fairness and objectivity, they will be encouraged to work hard, disciplined and perform well so that the company's goals can be achieved (Hasibuan, 2012: 107).

Performance
Sinambela et al. (2012) suggested that employees’ performance is defined as their ability to perform certain skills. The performance is very necessary since it can determine the extent to which the ability of employees in carrying out the tasks assigned to them. In addition, according to Wibowo (2013), performance is viewed as a process of work of how the it takes place to achieve the work results. According to Mangkunegara (2013), performance or work performance is the quality and quantity of a work an employee can achieve in carrying out his/her duties in accordance with the responsibilities given to him/her. Performance is defined as what is performed or not by the employees (Ratna, 2019). An effective and successful organization is supported by qualified human resources. There are many successful and effective organizations since they are supported by the good performance of human resources. On the contrary, a number of organizations fail due to the factors of human resource performance. Thus, there is a relationship between the organizational success or organizational performance with individual performance or human resources. Based on the aforementioned elaboration, it is clear that PT Seikou Seat Cover is required to determine the factors which affect the employee’s good performance. Thus, this study aimed to investigate the effect of direct compensation and promotion on the performance of the employees at Garment Department, PT Seikou Seat Cover.
2.1 Relationship between direct compensation and employee’s performance

With regard to the direct compensation and employee’s performance, according to Fauziah et al. (2016:179), compensation for employees can affect their work motivation so that their performance can improve. A company must be able to meet the needs of its employees and provides an appreciation for what they have performed to the company to achieve its goals. Moreover, the company must be able to motivate its employees so that they can carry out their duties or work well by providing compensation to make them feel that the performance they exhibit is taken into account well so that their performance as well as the productivity will improve.

2.2 Relationship between promotion and employee’s performance

If there is an opportunity for every employee to be promoted on the merit based consideration, they are encouraged to work hard, enthusiastic, disciplined and perform well so that the company's goals can be optimally achieved. Regarding the relation of promotion and performance, according to Marlindawaty and Anggrianita (2017: 293) that the promotions through which employees obtain the opportunity to prove better performance at a higher level prevent boredom at workplace which can be avoided and employees will tend to act competitively.

2.3 Relationship between direct compensation and promotion and employee’s performance

Fauziah et al. (2016: 179) conducted a study on an insurance company classified as a service provider company, AJB Bumiputera 1912. It was revealed that the company was demanded to be able to provide quality services and be able to fulfil the needs of its employees. Quality services can be achieved with the existence of reliable human resources with high capability and motivation. AJB Bumiputera 1912 strived to establish highly motivated human resources with excellent ability by creating a breakthrough, i.e. providing awards or compensation to employees.

With the provision of awards to employees, the branch head needed to improve more creative and smarter managerial and leadership skills in managing the organization. A good organizational management can be seen through the success of providing awards to employees on merit basis according to company’s policy.

3. Hypoteses

Based on the results of previous studies and theories, the hypotheses in this study are formulated as follows:

H₁ = direct compensation has a positive effect on employee performance;
H₂ = promotion has a positive effect on employee performance;
H₃ = direct compensation and promotion simultaneously have a positive effect on employee’s performance.
4. Research Methods

The object under this study is the effect of direct compensation and promotion on the employee’s performance at the Garment Department, PT Seikou Seat Cover, the address of which is located at Jalan Kopo Katapang KM 11.2 No 90, Bandung, Indonesia. The research used a descriptive analysis method with a quantitative approach. As stated by Sugiyono (2015: 53) that descriptive research is carried out to determine the existence of a stand-alone variable, whether only on one or more variables without establishing comparisons or connecting with other variables (a stand-alone variable is that which is self-contained, rather than an independent variable which is always paired with dependent variables. In this study, The authors used variables a direct compensation as X1, promotion as X2, and the performance as Y.

The descriptive research using a quantitative approach is aimed to explaining a situation that would be examined supported by literatures studies in order to further strengthen the analysis of researchers in a conclusion-making process. Subsequently, the the data obtained from the questionnaires were then processed using IBM-SPSS Statistics 23 and then presented in written format.

5. Population and Samples

According to Arikunto (2013: 174), a sample is defined as part or representative of the population under a study. Based on the above definition, it is concluded that the sample is part of the population to be investigated which represents the population’s characteristics. If in a study, the number of population is than 100, all members are taken into account as the samples. In addition, a sample is referred to as the unit of analysis, which is research subjects.

Therefore, based on the total number of population and the Slovin formula as the basis to determine the sample number, \( n = \frac{N}{1+Ns^2} \) (1) at a margin of error of 5% (0.05), the sample size of the study was 148 people. In the company, the number of employees’ population is 236 at the Garment Department.

After data collection, analyses were subsequently carried out both qualitative and quantitative. Qualitative analysis was performed by describing the responses of the respondents who are then presented in the form of tables, while quantitative one was conducted using statistical analysis.
6. Test Results
According to Sugiyono (2012: 172), validity refers to an instrument which is able to measure what is being measured. The term ‘valid’ means that the instrument can be used to measure what should be measured. Meanwhile, according to Arikunto (2002: 144), validity is a measure which indicates the levels of validity of an instrument. Validity is defined as the extent to which the accuracy and accuracy of a measuring instrument in carrying out its functions. Furthermore, Sugiyono (2012: 178) stated that an item is claimed to be valid when the correlation of each factor is positive number and the value is not less than 0.3. Validity test is carried out by correlating each statement with the total score of each variable.

In addition to validity test, there is a reliability which is represented by Cronbach’s Alpha test. According to Ghozali (2011: 133), if the value of Cronbach's Alpha is greater than 0.6, the research instrument is considered reliable. On the other hand, if the value is less than 0.6, the research instrument is not reliable.

According to Sugiyono (2011: 121), the research results are considered reliable when there are similarities of the data at different time.

Prior to the distribution of questionnaires to the respondents, the authors have tested the validity and reliability using the software of IBM-SPSS Statistics 23. Based on the results of the validity test, all results were proven to be valid and the results of the reliability test conducted on all the items in this study. It showed that all research items can be claimed to be reliable since the the value of Cronbach’s Alpha were above 0.60, i.e. 0.698, 0.710 and 0.744.

7. Multiple Correlation Analysis
To determine how close the relationship between direct compensation and promotion with the employees’ performance is, the authors tested the effect of variable X₁ and X₂ on Y using multiple correlation analysis. By the aid of software IBM-SPSS 23, the correlation values between direct compensation, promotion and the performance were obtained as follows:

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.360a</td>
<td>.130</td>
<td>.118</td>
<td>3.002</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Promotion, Direct Compensation  
b. Dependent variable: performance

Based on the table above, it shows that the calculation of the multiple correlation coefficient (R) resulted in 0.360. it indicates that the closeness of the relationship between the variable of direct compensation and promotion with the performance is classified as low criteria which are at the intervals of 0.20 – 0.399.

8. Coefficient of Determination
The coefficient of determination is performed to find out the magnitude of the influence or contribution of the variable direct compensation and promotion on the performance.
The coefficient of determination is the square of the correlation coefficient. The analysis results of the coefficient of determination can be seen in Table 1. Meanwhile, multiple determination coefficient \( R^2 \) is 0.130 or 13%, meaning that the performance at the Garment Department, PT Seikou Seat Cover is influenced by direct compensation and promotion by 13%, while the rest can be influenced by the other factors.

9. Partial Test (t-Test)

Partial test or T-test aims to determine whether the independent variable (X) partially influences the dependent variable (Y).

The present study proposed the hypotheses as follows:

1. \( H_1 \): there is an influence of direct compensation (X\(_1\)) on the employees’ performance (Y).
2. \( H_2 \): there is an influence of promotion (X\(_2\)) on the employees’ performance (Y).

Meanwhile, the significance value (Sig.) determines the results of the hypotheses as follows:

1. If the significance value (Sig.) < probability of 0.05, there is an influence of the independent variable (X) on the dependent variable (Y), in other words, the hypothesis is accepted.
2. If the significance value (Sig.) > probability of 0.05, there is no influence of the independent variable (X) on the dependent variable (Y), in other words, the hypothesis is rejected.

Based on the comparison of t count values with those of t table

1. If the value of t count > t table, there is an influence of the independent variable (X) on the dependent variable (Y); thus, the hypothesis is accepted.
2. If the value of t count < t table, there is no influence of the independent variable (X) on the dependent variable (Y); thus, the hypothesis is rejected.

Based on Table 2 at a significance level of 5% (0.05), the statements are as follows:

1. At the significance level (Sig.), T sig. 0.00 < 0.05, \( H_1 \) is accepted provided that there is an influence of variable of direct compensation on the employee’s performance (Y).
2. At the significance level (Sig.), T sig. 0.95 > 0.05, \( H_2 \) is rejected provided that there is no influence of promotion variables on the employee’s performance (Y).
Based on Table 2 which presents the comparison of the value of \( t \) count with those of \( t \) table = 1.976 at the degrees of freedom \( (df = n - k - 1) = 148 - (2 - 1) = 147 \), the interpretations are as follows:

1. For \( H_1 \), at \( t \) count = 4.648 > \( t \) table = 1.976, there is an effect of direct compensation on the employee’s performance (\( Y \)).
2. For \( H_2 \), at \( t \) count = -0.005 < \( t \) table = 1.976, there is no effect of promotion on the employee’s performance (\( Y \)).

Based on the interpretations aforementioned above, it can be concluded that \( X_1 \) is found to have an influence on the employees’ performance. It reveals that the value of \( t \) table has a positive influence; thus, if \( X_1 \) increases, the variable of performance (\( Y \)) will increase as well. In other words, if direct compensation is higher, it will be able to improve the employee’s performance.

**10. Simultaneous Test (F Test)**

Simultaneous test is performed to determine the value which gives a strong influence or relationship between two or more variables simultaneously. Therefore, it can simultaneously test whether a multiple regression is significant (real or otherwise). In other words, we will examine whether the results of multiple regression indicate that the variable of direct compensation and promotion simultaneously influence the performance. The results of simultaneous test/ statistical \( F \) test can be seen in the following table.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>195.016</td>
<td>2</td>
<td>97.508</td>
<td>10.818</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>1306.903</td>
<td>145</td>
<td>9.013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1501.919</td>
<td>147</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The test was carried out with a statistical test which gone through the following steps:

1. Determining statistical hypotheses

\( H_0: r_1 = r_2 = 0 \), which means that the two independent variables are either simultaneously or not have an effect on the dependent variable.

\( H_1: \text{at least one } r_1 \neq r_2 \neq 0 \), which means that the two independent variables simultaneously influence the dependent variable.

2. Determining the significance level of \( \alpha = 5\% \) with degrees of freedom \( (df = n - k + 1) = 148 - (2 + 1) = 145 \)

Where:
R denotes the value of partial correlation coefficient, n represents the number of samples, and k represents the number of independent variables.

3. Determining the value of $F_{\text{count}}$, which can be observed from the ANOVA output on the table above, i.e. 10.81.

4. Determining the acceptance and rejection of the proposed hypothesis with the test criteria:
   - $H_0$ is rejected if the value of $F_{\text{count}} \geq F_{\text{table}}$;
   - $H_0$ is accepted if the value of $F_{\text{count}} < F_{\text{table}}$.

Based on the results obtained from the comparison of values of $F_{\text{count}}$ with those of $F_{\text{table}}$, $H_0$ is rejected because $F_{\text{count}}$ is 10.81, which is greater than that of $F_{\text{table}}$ (i.e. 3.91). In other words, decision making was made based on the significance:

1. $F_{\text{sig}} < \alpha$, then $H_0$ is rejected, meaning that the independent variable simultaneously influences the dependent variable.
2. $F_{\text{sig}} > \alpha$, then $H_0$ is accepted, meaning that the independent variable simultaneously does not have an influence the dependent variable.

Based on the results obtained from the comparison of the level of significance, $H_0$ is rejected because the value of $F_{\text{sig}}$ of 0.00 is less than 0.05. From these two interpretations, it can be concluded that the variable of direct compensation and promotion significantly influence the employee’s performance.

11. Conclusions

There are good responses of the respondents regarding the provision of direct compensation provided by PT Seikou Seat Cover because the salary they receive is in accordance with the workload they are exposed to and in line with government regulations abiding by applicable laws. Likewise, the responses of the respondents regarding the promotion provided by PT Seikou Seat Cover is considered good, knowing that seniority is not put a priority in the promotion policy. The employees who have a longer service period are not necessarily deserved for fast promotion. In addition, the respondents' responses regarding performance are also considered good. Even though they are not supervised by their superiors, they still work according to the specified targets and perform their tasks assigned in accordance with the standards set by the company.

Moreover, direct compensation also influences the performance improvement, while promotion does not. However, direct compensation and promotion simultaneously influence the employee’s performance at the Garment Department, PT Seikou Seat Cover.

12. Recommendations

Given the current rate of inflation and increasing demands, the company is required to pay attention to its employees by providing the gradual increment of salary excluding the increase in regional minimum wage (UMR), increased allowances of transportation and meals in accordance with the length of service of employees in the company, providing extra salary for more educated employees. By doing so, the employees will perform better.
Excellently performing employees should be considered for career development, while those who have managerial ability, initiative and innovation should be promoted to ensure that the company is moving ahead. In addition, the employees who have ultimate loyalty should be considered for promotion; thus, they will feel that their competencies, achievements are appreciated by the company’s management.

Furthermore, the Company should provision trainings for their employees in order to master their respective field of work and the technological advancement. The management needs to enhance the employees’ participation in conducting active communication between the employees and their superiors so as to create a good and conducive work environment.

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