

THE EFFECT OF DIRECT AND INDIRECT COMPENSATION TO MOTIVATION AND LOYALTY OF THE EMPLOYEE

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Abstract: This study aimed to determine the effect of direct and indirect compensation to motivation and loyalty of the employee. Direct compensation based on indicators of salaries, incentives, and payment delays and indirect compensation is based on indicators of Time-Off Benefits, protection against danger, program benefits, and legal services then the motivation as a mediating variable. The Population in this study were 46 employees of the representative office of Bank Indonesia Kediri. This study used the saturated sample and the sample size in this study were 46 employees of a representative office of Bank Indonesia Kediri. Data analysis performed by linearity test and test hypotheses using path analysis. The results showed that the variable compensation is not directly significant effect on loyalty and motivation of the employee. The variable compensation also an indirectly significant effect on employee loyalty through employee motivation. Independent variables on loyalty and employee motivation are 77%, while the remaining 33% is influenced by other variables not examined in this study.

Keywords: loyalty, motivation, compensation, salaries, employee



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Globalization is happening in the 21st century is a new era for human civilization. The phenomenon in this era marked by the changes has occurred so rapidly in many aspects of life. Competition in this era of globalization, not only have implications on the increasingly competitive market conditions but also have an impact on the management and development of human resources (HR) in Indonesia. In the face of increasingly competitive, this is time for the Indonesian nation must rise up and develop a strategic plan for the development

of human resources towards a better future. To achieve all this we need a good management of internal and external. Management implies a process undertaken to achieve organizational goals through a series of activities such as planning, organizing, directing, and controlling people and organizational resources (Dessler, 2006:4). Organizational resources include 5 M aspects (Man, Money, Material, Machine, Method). "Man" in the aspect of organizational resources is human resources.

According to Flippo quoted by Alfonso (2002) stated that human resource management is the process of planning, organizing, directing and controlling of procurement of labor, development, the compensation, integration, maintenance and termination of employment with the aim of achieving the objectives or goals of individuals, organizations, and communities. One of the important points above are the compensation.

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Human resource management is very important to improve the success of large and small companies of any type of product or service (Schuller, 1997: 32). Recognizing the importance of human resources for the survival and progress of the company, then the company should give special attention to employees who now no longer seen as a factor of production but a partner (Saydam, 2000: 76-77). Human resources not only important in determining the success of a company but also associated with feelings, needs, and specific expectations. It needs a special attention because these factors will affect to work performance, dedication, loyalty, and pride of the company. Motivated the employees through compensation in order to achieve job satisfaction, the employees will feel satisfied, more loyal to the company, and has a high commitment to the company. Motivation has been linked with both directly or indirectly compensation.

Bank Indonesia is an institution that has an important role in the Indonesian economy. Bank Indonesia must have a performance and good quality human resources for the stability of the Indonesian economy. it was realized through program SDM Bank Indonesia, it is a mapping system, system planning and development, Fulfillment Systems, and System Maintenance. That four system is evaluated periodically and presents a system of human resources management and human resource management strategies that serve as the model guidelines in order to achieve the strategic objectives of the Bank Indonesia (Janu Dewandaru, 2013). One important

factor of four HR program is a system maintenance relating to the compensation. That proved by the highest the compensation in Bank Indonesia, namely the office of governor of Bank Indonesia (the central office) with the amount of 199.34 million rupiahs, as Table 1.

Previous studies have been widely investigated the relationship between the four variables separately. Cahyanto (2009) conducted a study that examines the influence of compensation on motivation and performance at the University of Nusantara PGRI Kediri. the result showed that there was a significant influence between compensation to motivation and there was a significant influence between variable compensation to performance through motivation. Several empirical studies also mention the compensation granted does not guarantee an increase the loyalty. The institute Canadian bar association survey (2012) mention that when an employee asked if there are other companies that provide indirect compensation, the employee answered 48% It Depends, 37% No, and 22% Yes. The conclusions gained from the trend started in 2010-2012 employees who have high levels of loyalty in companies Canada tended to stagnate. Employees who choose to stay in the company increased from 22%–30%, but employees who choose to go also increased from 17% - 22%. That would require companies to provide the competitive benefits package so that the level of employee loyalty to the company is increasing and the rate of turnover of the company is low, which is detailed in Figure 1.

Table 1. Bank Indonesia Earnings List in 2012

No.	position	class	Total Salary in Rupiahs*
1	Governor of Bank Indonesia	-	199 million
2	Senior Deputy Governor	-	169 million
3	Deputy Governor	-	123 million
4	assistant Governor	G.IX	99,67 million
5	executive director	G.VIII	83,06 million
6	director	G.VII	57,68 million
7	Deputy Director	G.VI	49,36 million
8	assistant Director	G.V	32,86 million
9	Manager	G.IV	26,18 millio
10	Assistant manager	G.III	17,72 million
11	Staff	G.II	12,72 million
12	Asist. executive	G.I	6,15 million

Source: <http://finance.detik.com>, 2014).

* Salary in 2013 and 2014 are projected to rise 7% per year adjusted for inflation.

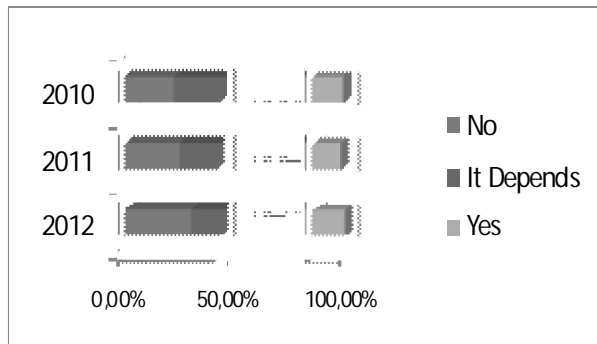


Figure 1. The Effect Level of Compensation Granted to Employees Loyalty

Sumber: *The Canadian Bar Association Survey, (2012)*

Controversy or the results of the research gap can lead to a substantial question of relevance between compensation, motivation and loyalty of employees, especially its application in the banking world. Facts prove that the task of Bank Indonesia in the field of monetary, banking and payment system is not an easy task. The demands of this sector are becoming increasingly large, the challenges faced by Bank Indonesia in the future is not light, and especially the very complex problems faced by the national economy. In this regard, Bank Indonesia is required to take steps in the strategic policy fields of Human Resources (HR), which is basically a refinement on the steps that had been done and the immediate implementation of the things that have been mandated by Law No. 23 in 1999 on Bank Indonesia.

Representative Office of Bank Indonesia Kediri selected as research sites because of Kediri has a rapid development in all aspects from education, tourism, trade, government bureaucracy, and exercise so that the town of Kediri received the award as a city that is most conducive to invest from an event associated with service society and the quality of autonomy (wikipedia.com). This will improve the economy so that the work of Bank Indonesia Representative Office Kediri more complex.

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Compensation

According to Blether in Hasibuan (2001: 119), "Compensation is what the employees receive in exchange for this work monthly whether or periodic Salaries". According to Hasibuan (2001: 118), the definition of compensation is all the income in the form of money or goods that directly or indirectly received by employees as a reward or services which have been given to the company. Provision of compensation to the company, in general, can be a time of system administration, system outcomes, and a contract system.

Direct Compensation

Direct compensation is one of the important roles in Human Resource Management (HRM), it agrees with Luthans (1992: 147), which says:

"Incentives, at the end of the motivation cycle, is the incentives defined as anything that will alleviate a need and reduce a drive, Thus Attaining an incentive will tend range to restore physiological and psychological balance and will reduce or cut off the drive. Eating food, drinking water, and obtaining friends will tend to restore the balance and reduce the corresponding drivers, food, water, and friends are the incentives In These examples ".According to Mondy (2002), the definition of direct compensation is in the form of cash payments that employees receive directly in the form of salary or wages, economic benefits, bonuses, and commissions.

Indirect Compensation

Handoko (2010) states that indirect compensation is important for employees as individuals because the amount of compensation does not directly reflect the size of their work among the employees themselves, their families, and communities. Sikula (1981), in his book, says:

"In the employment world, the financial rewards are the compensation resources Provided to employees for the return of Reviews their services. The terms" Remuneration", "wage "and" salary "Also are

used to describe this financial arrangement between employers and employees. A remuneration is a reward, payment or reimbursement for services rendered. Most forms of remuneration are financial, the all thought on occasion Also reimbursements Reviews These may be non-financial in nature“.

Motivation

Motivation does not just show up without any reciprocity from any activities that have been done. Motivation is a decisive success in the organization's activities because every member of the organization seeks to achieve the maximum results. The words of motivation, the basic word is "motive" which means the driving force which drives the human acts and such behavior has a specific purpose for their motives that caused their needs. However, the meaning of this word is not enough to explain the meaning of motivation itself clearly. Robbin (2002: 55), argues that the motivation is the desire to do as a willingness to issue a high level of effort for the organization's goals, conditioned by the effort's ability to satisfy an individual needs.

Employee loyalty

Hasibuan (2005), argues that loyalty is one of the elements used in the assessment of employees that includes loyalty to his job, position and organization. This loyalty is reflected by the willingness of employees to maintain and defend organizations within and outside the work of undermining the irresponsible people. Loyal is obedient and faithful (Poerwadarminta, 2002: 609). From the above, the conclusion is the tendency of employees will not move to another company, if an employee works at a company and the company has provided adequate facilities received by employees, then the employee loyalty to the company will be even greater, so the urge to do the work to become more diligently.

Money is the essential element that motivates a person's work. It was seen in the number of compensation or remunerate earned by the employees. The higher the value of compensation, the higher the employee motivation and hope that the performance will increase as well. The purpose of the compensation strategy is a true reward employee with appropriate

behavior with organizational standards. Money is also a very significant source of motivation for employees. But it could also be said that the increase in salaries can motivate the performance of the employee concerned in the future. however, all of the employees could not simultaneously obtain a salary increase if there is no achievement. Unless that is gained promotion because their performance exceeds the performance standards of the organization. Another thing to note is the position of the money is not always as elements of the only one who can motivate employees to work better. According to Herzberg money are for maintaining that motivation is not decreased. In other words, money is not a primary motivating factor for employees. Therefore, companies must look for other forms to motivate employees to work such as maintaining a comfortable working atmosphere, the attitude of a leader who motivates, and comprehensive facilities are the kind of compensation that is non-financial.

RESEARCH METHODS

This study is a survey research, the research took samples from a population and using questionnaires as the main data collection instruments. This study is categorized as explanatory research. Explanatory research is research that explains the causal relationship between the variables of research by testing (Singarimbun and Effendi, 2006). The research location is the Representative Office of Bank Indonesia Kediri. The population in this study was all employees of Bank Indonesia Representative Office Kediri. In this study, the data used is primary data and secondary data. To get the data relevant to the issues that have been determined, then use the data collection techniques with a questionnaire, which is enclosed questionnaire. The instrument used in this study was a questionnaire. According sekaran (2007: 82), the scale of measurement used is an agreement used as a reference for generating quantitative data. For the purposes of this study, researchers gave five alternative answers of respondents with a scale of 1 to 5.

The inferential statistical analysis used in this study were Path Analysis. Path analysis aimed to explain the direct and indirect influence of the variable causes (exogenous variable) on the dependent

variable (endogenous variable). This technique was a method used in a causal model that has been formulated by researchers on the basis of theoretical considerations and specific research (Ferdinand, 2006). The concept of this study described as follows.

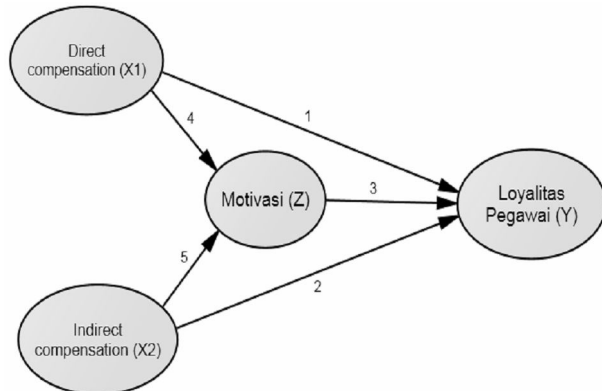


Figure 2. The conceptual framework of research

Description basic reference:

1. Chiu K. Randy, *et al.* (2002) and Willey Carolyn (1997)
2. Heshizer, (1994) and Kasper, *et al.* (2012)
3. Chiu K. Randy, *et al.* (2002), Powers (2000), and Kadarisman (2012)
4. Kadarisman (2012) and Ninuk Muljani (2002)
5. Kadarisman (2012) and Ninuk Muljani (2002)

Based on the conceptual framework of this study, there are several hypotheses were proposed.

- H1 : There is an effect of Direct Compensation to the employee loyalty
- H2 : There is an effect of Direct Compensation to the employee motivation
- H3 : There is an effect of Indirect Compensation to the employee loyalty

- H4 : There is an effect of Indirect Compensation to the employee motivation
- H5 : There is an effect of employee motivation on employee loyalty
- H6 : Direct Compensation affects the employee loyalty through employee motivation
- H7 : Indirect Compensation affects the employee loyalty through employee motivation

RESULTS

The results of this study indicate that all items used in this study have a valid and reliable result. Validity test results on the items of the instruments used in the study showed that all items of research instruments can be said to be valid because it has a correlation index of Pearson product moment ($r \geq 0.3$). Reliability test results on the items of the instruments used in the study showed that all items of research instrument can be said to be reliable because it has met the criteria of reliability testing items with Cronbach Alpha ($\alpha \geq 0.6$). Basic decisions hypothesis testing used a significance value (p-value) with the criteria if the p-value > 0.05 , then H_0 is accepted or H_a is rejected, it means that the coefficient path obtained has no effect, if the p-value < 0.05 , then H_0 is rejected or H_a accepted, meaning the path coefficient obtained has an effect, as presented in Table 2.

DISCUSSION

- H1 : There is an effect of Direct Compensation to the employee loyalty

The results showed that the direct compensation has no effect on employee loyalty. This result was evidenced by the $t_{\text{statistic}}$ value is smaller than t_{tabel}

Table 2. The Effect Between Variables

The Effect Between Variables	Coefficient path	p-Value	Explanation
Direct Compensation to Employee Motivation	0,161	0,299	Not Sig
Direct Compensation to Employee Loyalty	-0,87	0,494	Not Sig
Employee Motivation to Employee Loyalty	0,624	0,000	Sig
Indirect Compensation to Employee Motivation	0,522	0,001	Sig
Indirect Compensation to Employee Loyalty	0,287	0,048	Sig

Source: Processed Data, 2014

($0.690 < 2.013$) and the value of the probability or p-value was 0.494. Because the p-value $> 5\%$ ($0.494 > 0.005$), the negative influence of direct compensation to the employee loyalty can be seen from the negative value of standardized regression weight was -0.087, so the hypothesis that direct compensation has an effect on employee loyalty was rejected.

H2 : There is an effect of Direct Compensation to the employee motivation

The results showed that the direct compensation has no effect on employee motivation. This result was evidenced by the value $t_{\text{statistic}}$ smaller than t_{tabel} ($1.050 < 2.013$) and the value of the probability or p-value was 0.299. Because the p-value $> 5\%$ ($0.299 > 0.005$). The positive influence direct compensation to employee motivation can be seen from the value of standardized regression weight was 0.161, so the hypothesis that direct compensation has an effect on employee motivation was rejected.

H3 : There is an effect of Indirect Compensation to the employee loyalty

The results showed that compensation indirect effect on employee loyalty. This result is evidenced by the $t_{\text{statistic}}$ value greater than t_{tabel} ($2.041 > 2.013$) and the value of the probability or p-value was 0.048. Because p-value $< 5\%$ ($0.048 < 0.005$). The positive influence of indirect compensation to employee loyalty be seen from the value of the standardized regression weight was 0,287, so the hypothesis that indirect compensation effect on employee loyalty is acceptable. this means that the increase of indirect compensation, the employee loyalty will also increase.

H4 : There is an effect of Indirect Compensation to the employee motivation

The results showed that (compensation indirect) effect on employee motivation. This result is evidenced by the $t_{\text{statistic}}$ value greater than t_{tabel} ($3.397 > 2.013$) and the value of the probability or p-value was 0.001. Because p-value $< 5\%$ ($0.001 < 0.005$). The positive effects indirect compensation on employee motivation can be seen from the positive standardized regression weight value was 0.522, so the hypothesis that compensation indirect effect on employee motivation can be accepted. this means that the increase

of indirect compensation, the employee loyalty will also increase.

H5 : There is an effect of employee motivation on employee loyalty

The results showed that employee motivation effect on employee loyalty. This result is evidenced by the $t_{\text{statistic}}$ value greater than t_{tabel} ($5.033 > 2.013$) and the value of the probability or p-value was 0.000. Because p-value $< 5\%$ ($0.000 < 0.005$). The positive effects motivation to employee loyalty can be seen from the positive standardized regression weight value was 0.665, so the hypothesis that employee motivation effect on employee loyalty is acceptable. These results suggest that if the employee motivation increased that will be followed by increasing the employee loyalty.

H6 : Direct Compensation affects the employee loyalty through employee motivation

The indirect influence of direct compensation to the employee loyalty through motivation have the value of coefficient was 0.100 with a p-value was 0.494, while the coefficient value of direct influence of direct compensation to the employee loyalty was -0.087. These results suggest that the amount of the coefficient value of indirect influence is greater than the direct effect so that it can be interpreted that the motivation variables may mediate the effect of direct compensation to employee loyalty.

H7 : Indirect Compensation affects the employee loyalty through employee motivation

The indirect effect of indirect compensation to the loyalty of employees through motivation have the value of the coefficient was 0.325 with a p-value was 0.048, while the coefficient value of direct effect of indirect compensation to the employee loyalty was 0,287. These results indicate that the amount of the coefficient of indirect influence is greater than the direct effect so that it can be interpreted that the motivation variables mediated the effect of indirect compensation to employee loyalty.

Testing the hypothesis of direct compensation and compensation not directly affect the employee loyalty through motivation are presented in Table 3 below.

Table 3. Directly Effect and Indirectly Effect

Influence Between Variables	The influence of Causal	
	Directly	Indirectly through motivation
Direct Compensation to Employee Loyalty	-0,87	$0,161 \times 0,624 = 0,100$
Indirect Compensation to Employee Loyalty	0,287	$0,522 \times 0,624 = 0,325$
Direct Compensation to Employee Motivation	0,161	-
Employee Motivation to Employee Loyalty	0,624	-
Indirect Compensation to Employee Motivation	0,522	-

Source: Primary Data Processed, 2014

CONSLUSION AND SUGGESTION

CONCLUSION

Direct compensation provided by Bank Indonesia does not have an influence on the motivation and loyalty of employees it is because the employees of the Representative Office of Bank Indonesia Kediri looked at direct compensation (salary, incentives, and Payment Insured) is commonly given and the obligation of institutions to pay. The indirect compensation is an attraction for employees of Bank Indonesia Representative Office Kediri because the facilities are given quite a lot (allowances, health insurance, loans, sports facilities, home offices, and gathering) so that it can increase employee motivation and loyalty. Motivation has a strong influence on loyalty, employees who have a good motivation in the work will strive to give their best performance in their work so that employees be more faithful and loyal.

SUGGESTION

The competition for increasing human resources evaluation is needed to attract the best human resources through the compensation awarded. an evaluation of the compensation management of the internal and external justice. Implement a rational compensation system in order to help institutions to acquire and maintain employees with reasonable costs. Compensation has been paid should reinforce desirable behaviors and acts as an incentive for future behavior. For further research is recommended to change the object to a non-government or company to see the influence of direct compensation to the loyalty and compensation.

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