

# **The Influence of Compensation and Organizational Commitment on Employees' Turnover Intention**

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**Abstract:** *Human resources is an important element in an organization. Organizational performance depends on the condition and behavior of the particular organization's employees. Employees' satisfaction depends on the compensation received; hence unsatisfactory compensation caused low organization commitment and increases turnover intention. High turnover intention causes bad impact on the organization. There were many studies showing that statement. However, not all turnover intentions are caused by compensation and organizational commitment. Turnover intention can be caused by work stresses, work overload, low work motivation and also leadership style. In most of previous studies, the influence of organizational commitment on turnover intention was done in banking and education sector, so in this study, researcher will do it in hospital industry. The objective of this study is to analyze the influence of compensation and organizational commitment on employees' turnover intention. From this study, we will be able to draw conclusion of the influence of compensation and organizational commitment on turnover intention.*

**Key Words:** *Compensation, Organizational Commitment and turnover intention*

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## **I. Introduction**

Capable human resources, that can give optimal contribution to organization, sometimes can be hard to achieve. This has been a motivation for organization to retain employees who has given or predicted to give meaningful contribution to organization. Every organization is expected to be able to manage, organize and hold on to their human resource the best they can. Human resource, is the key to determine whether the organization goal is achieved or not. The organization should have the thought, feeling and desire to influence the employees' will to stay in the organization, with the attention on compensation and organizational commitment. One of the employees' behavior, is to have turnover intention that can end in a decision to leave job. Turnover intention can be seen as a movement of work force to leave from the organization. Turnover intention can be resignation, leaving the organization, discharge, or death of a member in an organization. Most of the employees leave the organization by voluntary reasons, and can be categorized as avoidable voluntary turnover and unavoidable voluntary turnover. Avoidable voluntary turnover can be caused by various reasons such as salary, work condition, superior, or other better organization, when unavoidable voluntary turnover can be caused by change in career path or family reasons (Zeffane, 2003). Employees who are unsatisfied of salary received, will have a reason to look for alternative job. Salary satisfaction can be seen as someone who is satisfied by the salary when the perception on the salary is suitable with what is expected. Individual who is satisfied tends to stay in an organization, but unsatisfied ones will choose to leave the organization. Increase in employees' satisfaction on compensation/salary received will increase the organizational commitment and lower the turnover intention. Weldeyohannes (2016), studied on the influence of compensation on turnover intention of teachers in Tigray, explained that salary satisfaction influence the teacher turnover intention. Other study conducted by (Nawab, 2011) about the influence of employees' compensation, organizational commitment and work satisfaction in a case study in Pakistan education sector, showed that compensation has a significant relation with organizational commitment and compensation has a significant relation with work satisfaction. Khan (2014) studied about the impact of organizational commitment on turnover intention among academics in Pakistan's High Education Institutes, showed that low organizational commitment is the most important factor causing employees' turnover in Pakistan's High Education Institutes. On the other hand, Ahmed and Nawaz (2015) studied about the impact of organizational commitment on turnover intention among Pakistan International Airlines (PIA) employees, showed that learning motivation, work satisfaction, organization support, availability of training programs, have a positive significant relation on organizational commitment. Studies about influence of compensation and organizational commitment on turnover intention was done in banking and education organization, till this study, researcher studied in hospital industry on various profession such as: nurses, radiographers, pharmacists, medical rehabilitation workers, medical record workers, and other administrative workers which have never been done before. The objective of this study, is to analyze the influence of

compensation and organizational commitment on employees' turnover intention. In this study, researcher used the Structural Equation Modeling (SEM) data analyzer, that hopefully can read the study result and some regression simultaneously.

## **II. Theoretical Overview**

### **1.1. Turnover Intention**

Turnover is the movement of workers in and out of a company. Changes of employees is the cessation of an employee as a member of an organization, followed by a financial compensation by the organization. Most of the employees leave the organization by voluntary reasons, and can be categorized as avoidable voluntary turnover and unavoidable voluntary turnover. Avoidable voluntary turnover can be caused by various reasons such as salary, work condition, superior, or other better organization, when unavoidable voluntary turnover can be caused by change in career path or family reasons (Zeffane, 2003). Employees' discharge, cause a big cost to the company in the form of experts who can transfer specific knowledge to competitor (Carmeli and Weiberg, 2006). Turnover intention is the tendency or intention to quit the job voluntarily or involuntarily or move from one company to other by their own choice. Turnover as a discharge of an employee is permanent weather done by the employee themselves (voluntarily) or by the company.

### **1.2. Compensation**

Dessler (2009) stated that compensation in a form of payment or wage given to employee as the employment of that employee. Compensation can mean something different between different people. Basic compensation is needed to maintain the employee's proper lifestyle. However, compensation also provide a tangible measurement about an individual's value for the organization. Compensation payment is a human resource strategic function that give a significant impact on other human resource functions. Dessler (2009) types of compensations: first direct money payment in form of salary, wage incentives, commission and bonus: second, indirect payment in the form of allowances like insurance, entertainment on company cost: third, nonfinancial reward that are not easily quantified like challenging working environment, flexible working hours and prestigious office. Direct compensation types are: wage or salary, incentives and allowances.

### **1.3. Organizational Commitment**

Organizational commitment is the commitment of the employee toward the organization where they are working. Someone's organizational commitment is one of the guarantee to keep the organization to continue (Robbins, 2008). Robbin (2008) identified three components in organizational commitment which are: affective commitment: emotional involvement in the form of love to the organization. Continue commitment: someone's perception of cost and risk of leaving the organization. Normative commitment: Morale dimension based on obligation and responsibility to the organization hiring the employee.

## **III. Hypothesis Development**

### **3.1. Relation of Compensation and Turnover intention**

Compensation is a form of payment or reward given to employee as a result of that person employment (Dessler, 2009). Turnover intention from current company can be caused by unsatisfactory salary, high demand by other company, work hour shift and uncertain work status. Satisfactory or unsatisfactory salary is cause by incompatibility between what someone received compared to other. Satisfaction on compensation will lower absence rate and employees' turnover intention. Weldeyohannes (2016) also stated that unsatisfactory salary has impact on turnover intention. From the explanations above, we can conclude that satisfactory salary can retain an employee to stay loyal to the company or organization. Compensation for an employee, is a form of appreciation given to employee for their contribution to achieve company goal. Compensation is also a motivation for employees to work as best as they can. Proper compensation suitable with responsibility will also increase the sense of responsible on the task given to the employees. From all the explanation, researcher submit a hypothesis as follow:

**H1:** Suitable compensation will lower employees' turnover intention

### **3.2. Relation of Compensation and Organizational Commitment**

Compensation given to employees weather financial or nonfinancial as a reward for employees' contribution to the organization. Proper compensation will motivate employee to stay in the organization and subconsciously, will grow the sense of belonging toward the organization where they work. Khan (2014) stated that the impact of Organizational commitment to turnover intention, where low Organizational commitment is the most important factor in turnover intention. Nawab and Bhatti (2011) studied the influence of compensation and work satisfaction on organizational commitment. The result showed that compensation and work

satisfaction have positive influence on organizational commitment. From explanations above, we can conclude that proper compensation will increase sense of belonging of employees to their working place. Proper compensation will push the employees to work better and with more comfort to achieve organization goal. Therefore, researcher submit a hypothesis as follow:

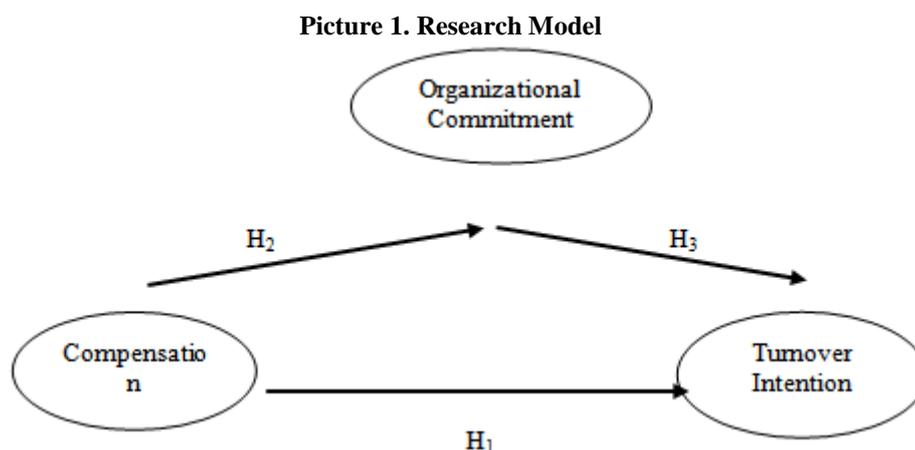
**H2:** Proper Compensation will increase Organizational Commitment

### 3.3 Relation of Organizational Commitment and Turnover Intention

Nowadays, working environment has become more competitive. Company or organization in competitive environment, often expected to have better performance to achieve organization goal, often disturbed by employees' turnover intention. High turnover intention in one company will give negative impact on the company by creating unstable working condition and increase the cost of recruiting new employee. In this case, organization have to have good commitment to increase employees work motivation. Good Organizational commitment will decrease turnover intention in a company or organization.

Ahmed and Nawaz (2015), studied about the impact of organizational commitment to turnover intention stated that learning motivation, working satisfaction, organization support, availability of training program, have positive relation with organizational commitment. By explanations above, we conclude that good organizational commitment will be able to maintain employees to stay loyal to the company or organization. From the details above, researcher submit a hypothesis as follow:

**H3:** Good Organizational Commitment will decrease turnover intention According to the hypotheses, the conceptual model can be described in the following picture:



## IV. Research Method

This study was conducted on employees in Ciputra Hospital CitraGarden City West Jakarta. Aspects studied are: Compensation, organizational commitment and employees' turnover intention. Study was conducted on January 2017 by survey method. This study is descriptive analysis with causality model or influence relation. Data gathering was done by distributing questionnaire to the employees of Ciputra Hospital CitraGarden City West Jakarta. Data Analysis method in this study, was using Structural Equation Model (SEM). According to Heir (2008), the sample size should be at least five times the number of questions analyzed. In this study's questionnaire, there are 21 questions, so the minimum number of respondents are 105 respondents. In this study, 120 questionnaires were distributed, 15 were not returned.

## V. Measurement

Independent variable in this study is the turnover intention and the dependent variables are compensation and organizational commitment. Compensation variable was developed from questionnaire (Danuarta, 2007) which consisting: salary indicator, allowances indicator, promotion chance indicator, and appreciation and praise indicator. Organizational commitment variable was developed by (Porter, 2006) classified organizational commitment into three dimension components which are: affective commitment, continue commitment and normative commitment and turnover intention variable was developed by (Cumman, 2009) some measurement components as follow: presence of intention to leave, activity in searching for new job, evaluation on possibility to find new and better job somewhere else. Next, all indicators are shown in the questionnaire, and then validity and reliability test were conducted. This study used Confirmatory factor analysis

by doing validity test by looking at Kaiser-Meyer- Olkin Measure of sampling (KMO) value and measures of sampling adequacy (MSA). In this study, the value obtained, have to be greater than 0.5 which means the factor analysis was precise or suitable to use and can be processed further (Malhotra, 2004). Compensation scale was consisting 8 questions and there were 5 valid questions (MSA >0.5), questions unaccepted K6, K7 and K8, because there were 2 matrix components in the data processing to they were excluded from this study questionnaire. In Organizational commitment scale, there were 16 questions and 13 was valid (MSA>0.5), questions unaccepted were KE5, KN2 and KN6, because there were 2 matrix components in the data processing to they were excluded from this study, questionnaire. In turnover intention scale, there were 3 questions and all valid. Reliability test with Alpha Cronbach value >0.6 which means reliable so all indicators turnover intention, compensation and organizational commitment are all can be trusted as data gathering for this study.

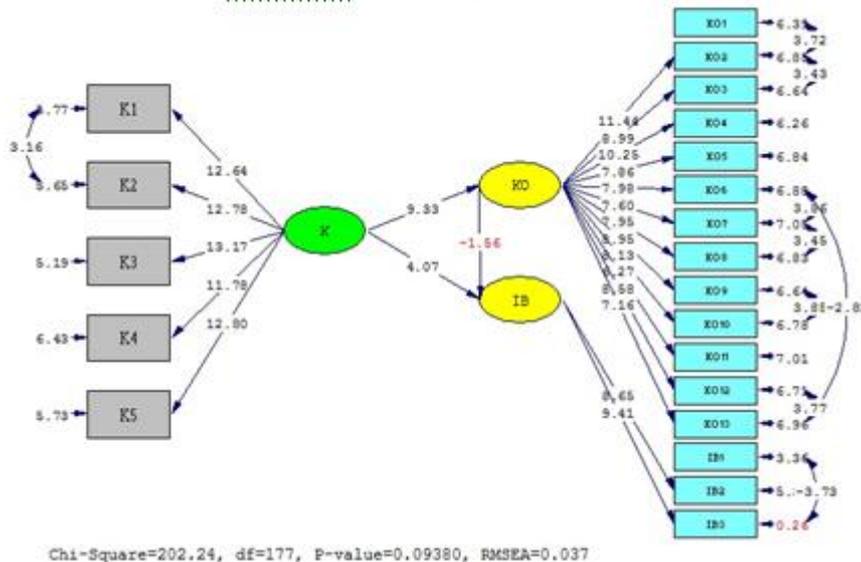
### VI. Result

In this study, shown in table 1, where hypothesis 1 was tested using T value statistical test, the result support hypothesis 1 (H1) which is Suitable compensation will lower employees' turnover intention with (T-value 4.07). Higher the compensation, the lower the turnover intention, and vice versa, the lower the compensation, the higher the turnover intention. For the H2: Proper Compensation will increase Organizational Commitment, the result (T value 9.33) which means the higher the compensation, the higher the Organizational commitment, and the lower the compensation, the lower the organizational commitment. Test on hypothesis 3: Good Organizational Commitment will decrease turnover intention (T value -1.56) which mean organizational commitment have no influence on turnover intention.

Table 2. Hypothesis Testing Research Model

Hypotesis	Hypotesis Statement	ValueT-Value	Information
H <sub>1</sub>	The relationship compensation and switching intention	4,07	Data support the hypotesis
H <sub>2</sub>	The relationship of compensation and organizational commitment	9,33	Data support the hypotesis
H <sub>3</sub>	The relationship organizational commitment and intention to move	-1,56	The Data do not support hypotesis

Picture 2. Path Diagram T-Value



### VII. Discussion

In previous study conducted by (Khan, 2014), stated that low organizational commitment caused higher turnover intention. Similar to the study conducted by (Nawab and Bhatti, 2011), stated that compensation have positive and significant influence to organizational commitment. The result of Hypothesis one test, showed that the analysis result support the H1 which is Suitable compensation will lower employees' turnover intentionThe result of test on Hypothesis number two, Proper Compensation will increase Organizational Commitment,

analysis result showed support on hypothesis 2. The result of this study confirmed previous study result conducted by (Luthans 2006) that there are many forms of appreciation that can increase performance and loyalty. One aspect that get more attention, is the fact that many employees have responsibility on their job and family, and when the organization help them to handle the responsibility, their loyalty increase, which means the higher the compensation, the higher the employees' organizational commitment to the hospital and vice versa, the lower the compensation received by the employee, the lower their organizational commitment to the hospital. One of the reasons that caused low organizational commitment among the hospital employees, is because the compensation is not suitable, where high school graduates receives almost the same salary as diploma graduates, that creates disappointment to the compensation, hence low organizational commitment. Employees do not feel that the problems of the hospital are their problems, the employees do not feel proud of the hospital to promote the hospital to their family, the employees are not loyal and feel no guilt to leave the hospital. These conditions describe how low the employees' organizational commitment to the hospital. The result on hypothesis number three Good Organizational Commitment will decrease turnover intention, the result showed unsupportive to hypothesis 3. The result is suitable with the opinion of (Ahmed and Nawaz, 2015) who stated that learning motivation, work satisfaction, organization support, availability of training program had positive significant relation to organizational commitment. The result in this study shows that organizational commitment has no impact on turnover intention, and there might be several other reasons. In this case, the low compensation caused the employee to leave their job and not organizational commitment, but low compensation did lower the employees' organizational commitment. According to researcher's analysis, this is caused by the thinking that commitment to the organization give no advantage to them. If there is a possibility of better working place shows up, their curiosity will be risen to turnover. Therefore, the organizational commitment has no influence to turnover intention. The employees stay on their job only because the compensation in high, satisfactory and only to fulfill their need. From explanation above we can conclude that employees' organizational commitment have no influence on increasing employee turnover.

### **VIII. Conclusion**

The results can be concluded from this study is the first, compensation increases would decrease the turnover intention the employee, or otherwise low level of compensation will increase employees turnover intentions. Second, the appropriate compensation will increase organizational commitment, meaning that the higher the compensation received by employees increased organizational commitment so that the turnover intentions decreased employee compensation otherwise lower the organizational commitment decreased so that the turnover intentions employee increased. Third, good organizational commitment to lower the turnover intention employees. Because employees work in hospitals move not because of organizational commitment, but because of low compensation and unsatisfactory. So, from this hypothesis can be said that compensation and organizational commitment affect employees turnover intentions.

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