

# Compensation And Turnover Intention In Coal Mining Support Companies In South Kalimantan

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**Abstract:** This study aims to determine and to analyze the effect of financial and non-financial compensation on the turnover intention on employees who work in mining company, especially repair and maintenance heavy equipment company, which is located in South Kalimantan. The sample were 60 employees obtained by census sampling technique. The data used was primary data generated from distribution of questionnaires. Hypotheses were tested using multiple linear regression analysis. The results found that financial compensation and non-financial compensation had a negative and significant effect on turnover intention. This study has both theoretical and practical implications. These findings are able to reinforce previous studies on the effects of compensation on turnover intentions. In addition, this research gives input to the management of mining company to maintain financial and nonfinancial aspects in the business of employees as a valuable asset for the company.

**Index Terms:** Financial compensation, nonfinancial compensation, turnover intention, employee, human resource management

## 1 INTRODUCTION

Employee is the most important asset in a company. One of the factors becoming the benchmark for the development of a company is the performance of its employees. The problem which is frequently arises and ultimately hampers the performance of employee is the desire of employees to retire from the company (turnover intention). The high level of turnover intention would be a serious problem for many companies and could even frustrate the company when it became clear that the recruitment process that has obtained qualified staff eventually turned out to be useless because the recruited staff had chosen a job at another company (Toly, 2001). Turnover intention is characterized by various things concerning employee behavior, among others: being lazy at work, increased absenteeism, starting to oppose or protest to superiors, violating the work order, and the lack of seriousness in completing the responsibility (Harnoto, 2002: 2). Some empirical studies have found that dissatisfaction on compensation is a factor that dominates employee turnover intention (Ghafoor et al., 2017; Chen et al., 2014; Cao et al., 2013). Compensation can be interpreted as the overall remuneration received by employees for performing their work, and then the company provides it in the form of money, allowances or awards that aims to motivate employees to participate in the growth and development activities of the company and also build employee commitment (Chen & Hsieh, 2006). The given compensation system should be fair and reasonable for employees. Giving compensation felt by unfair employees hence many things that are not expected by the company will happen, such as increasing the movement of labor (turnover intention). Compensation can be in form of financial and non-financial remuneration.

Financial compensation consists of two forms: direct and indirect. Direct financial compensation is payments to employees that can be in the form of wages, salaries, bonuses and commissions. While the indirect financial compensation includes all moneys paid out to an employee that are not included in direct compensation. This form of compensation is often understood as the portion of an employee's contract that covers items such as temporary leaves of absence, benefits and retirement plans. Non-financial rewards can be in form of team leadership opportunities, praise, self-esteem, and recognition of achievements that employees have made. A good compensation system can motivate employees, thereby reducing the intention of looking for other jobs and turnover (Wanous, 1974; Shi, 1991) Zeffane (1994) argues that dissatisfaction on compensation will lead to negative employee behavior such as absenteeism and lethargy. These indications often grouped in resignation behavior or also referred to as the desire to stop working. However, Chepchumba and Kimutai (2017) found that the basic components of compensation, ie basic salaries and commissions, did not significantly influence turnover intention. This result gap provides an opportunity for researcher to reexamine the effect of financial and nonfinancial compensation but on different observational objects. This study aims to examine the effect of financial and nonfinancial compensation on employee turnover intention partially and simultaneously. The research was conducted in three mining support companies which are engaged in repair and maintenance service of heavy equipment of coal mining in South Kalimantan Province, Indonesia. The average age of companies studied are five years old. Due to their young age and they still in the development stage, they need strategic efforts in treating employees as a valuable human capital for the development of a better company. Therefore, efforts in detecting the presence of turnover intention on employees and whether compensation influences it are needed to be considered.

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## 2 LITERATURE REVIEW

### The relationship between financial compensation on turnover intention

Job dissatisfaction has often been identified as an important reason that causes individuals to leave their jobs. Empirically it can be concluded that job dissatisfaction has a direct influence on the formation of outgoing desire. Dissatisfaction on

financial compensation could lead to employee's intention to retire from the company. Financial compensation is divided into 2 (two) types, namely: 1) direct financial compensation, ie payments received by employees in the form of salaries, wages, bonuses, and commissions. Salary is remuneration paid periodically to the employees and has a definite guarantee, whereas wages are remuneration paid to workers by referring to the agreement of payment. Bonus is a kind of reward given that is not included in the employee's basic salary. 2) Indirect financial compensation, ie all rewards not included in direct compensation. The form of indirect compensation is any kind of rewards that employees receive indirectly. Examples of these indirect financial compensations are social security, insurance, family health benefits, leave, etc. Money is considered a highly significant motivator. Many studies have found a negative relationship of financial compensation on employee turnover intention. Ghafoor (2017) found negative effect of financial compensation on software industry employee in Pakistan. Rubel and Kee (2015) asserted that the higher the level of compensation practice the lower the level of employee turnover intention.

Hypothesis 1: Financial compensation has negative effect on employee turnover intention

#### The relationship between nonfinancial compensation on turnover intention

Nonfinancial compensation is a reward given to employees in the form of awards such as more challenging work, wider work hours, career rewards, social security, or other forms that can lead to job satisfaction. Aspects of nonfinancial compensation include work and work environment (Neckermann and Kosfeld, 2008). Ryan et al (2000) argued that non-monetary types of compensation can be very meaningful to employees and very motivating for performance improvement. The satisfaction of non financial compensation makes the employee desires to stay in the company and to decrease the intention of turnover. Nyaribo and Nyakundi (2016) found that non financial compensation (job design, better workplace environment, career development, training) and non financial incentives (participation, recognition) could motivate employees, drive up their performance as well as to retain staff. Asiago (2015) noted that use of non-financial rewards affects the employees' mental and physical wellbeing in their work and also the quality of their production which is important in the attraction, and retention of valuable.

Hypothesis 2: Non Financial compensation has negative effect on employee turnover intention

### 3 RESEARCH METHOD

This study was explanatory research where we tried to explain the causal relationship and to explain the relationship between several variables through hypothesis testing both partially and simultaneously. This research used survey method where the data were collected based on respondent's answer from questionnaire submitted. The questionnaires were distributed to 60 employees of 3 coal mining support companies in South Kalimantan. The data were analysed using multiple linear regression analysis. Before performing regression analysis, the research instruments were tested using validity and reliability test. The resulting regression model was tested using classical assumption test, ie normality test, multicollinearity test, and heteroscedasticity test.

## 4 RESULT AND DISCUSSION

### The Result of Instrument Testing-Validity Test

Validity test was done through item analysis with pearson product moment correlation formula. The result of validity testing on the statement items of financial compensation variable and nonfinancial compensation variable on the questionnaire can be seen in Table 1.

Table 1. Result of Validity Testing

Indicator(s)	r <sub>value</sub>	r <sub>table</sub>	Sig.	Conclusion
X1.1 Salary	0,701	0,214	0,000	Valid
X1.2 Incentive	0,810	0,214	0,000	Valid
X1.3 Transportation allowance	0,792	0,214	0,000	Valid
X1.4 Health benefits	0,578	0,214	0,000	Valid
X1.5 Family Benefits	0,768	0,214	0,000	Valid
X2.1 Job Promotion	0,675	0,214	0,000	Valid
X2.2 Self Development	0,787	0,214	0,000	Valid
X2.3 Workplace environment	0,768	0,214	0,000	Valid
Y.1 The desire to find new jobs in the same field in other companies	0,848	0,214	0,000	Valid
Y.2 The desire to find a new job in a different field in another company	0,755	0,214	0,000	Valid
Y.3 The desire to seek a new profession	0,801	0,214	0,007	Valid

Source : SPSS Output, 2018

The validity test showed that 11 items of statement from the financial compensation (X1), nonfinancial compensation (X2), and turnover intention (Y) are all valid because the significance values were less than the error rate ( $p < 0,05$ ). The significance test of instrument validity was also done by comparing rvalue value with rtable for the degree of freedom (df) = N-2. In this pretest, the number of samples (n) were 60, the degree of freedom was 58 with  $\alpha = 5\%$  so the generated rtable was 0,194. Based on the above table, it was proved that all the statement item were valid.

### The Result of Instrument Testing-Reliability Test

Reliability test was done to obtain the level of accuracy of research data collection tool used. This study used reliability test with the cronbach alpha ( $\alpha$ ) coefficient formula. According to Prayitno (2010: 75), a research data instrument is said to be reliable if it gives cronbach alpha value more than 0,60. The result of reliability test on the research instrument of financial compensation, nonfinancial compensation, and turnover intention variable can be seen in Table 2 below.

Table 2. The Result of Reliability Test

Variable	Cronbach Alpha	Cut off point	Conclusion
Financial compensation (X1)	0,852	0,60	Reliable
Non financial compensation (X2)	0,893	0,60	Reliable
Turnover intention (Y)	0,846	0,60	Reliable

Source: SPSS Output, 2018

Based on the calculation of data instrument reliability, it was found that the financial compensation (X1), nonfinancial compensation (X2), and turnover intention (Y) are all reliable

because the cronbach alpha values are greater than the cut-off value.

### The Result of Multiple Regression Analysis.

This analysis aimed to determine the effect of financial and nonfinancial compensation variables simultaneously and partially on employee turnover intention. The result of multiple linear regression analysis is shown by table 3 below.

**Table 3. The Result of Multiple Regression Analysis**

Variabel	Unstandardized Coefficient		Stand. Coef	t	Sig.
	B	Std. Error			
(Constant)	0,631	1,237		0,510	0,611
Financial compensation (X1)	-0,744	0,083	-0,875	-8,912	0,000
Non financial compensation (X2)	-0,115	0,079	-0,127	-2,761	0,038

Source: SPSS Output, 2018

After performing multiple linear regression analysis, the regression equation generated was as follow:

$$Y = 0,631 - 0,744X1 - 0,115X2 + e$$

The regression equation showed the financial compensation variable gave the most influence on turnover intention as seen from its coefficient value. This means that the increase of financial compensation leads to the decrease of turnover intention. The next variable is nonfinancial compensation which negatively affect the turnover intention, where the increase of nonfinancial compensation will reduce employee turnover intention.

### Result of Hypotheses Testing

#### • F-test

Based on the results of multiple linear regression analysis, the value of F-value was 109,544 while the F-table was 3,16 and the p-value is 0,000 with a n error rate of 5%. Because F-value was greater than F-table (109,544 > 3,16) and p-value was smaller than error rate (0,000 < 0,05), it indicated that financial compensation and nonfinancial compensation variables significantly influence the turnover intention of coal mining support company employees in South Kalimantan simultaneously.

#### • t-test

##### 1) Nonfinancial Compensation (X1)

The result of data analysis showed that the t-value of 8,912 exceeded the value of t-table of 1,671, which means that financial compensation (X1) significantly affects turnover intention partially.

##### 2) Nonfinancial Compensation (X2)

The result of data analysis showed that the t-value of 2,761 exceeded the value of t-table of 1,671, which means that nonfinancial compensation (X2) significantly affect turnover intention partially.

### Discussion

Statistical analysis showed that financial compensation has a significant negative effect on turnover intention. If the

employee's expectation is well-suited with the compensation they get, the desire to move from their jobs and company is getting smaller. Financial compensation in coal mining support companies in South Kalimantan can be given in two types, namely direct and indirect compensation. Direct financial compensation is in the form of salary, incentives, commissions, and bonuses. While indirect financial compensation in the form of insurance benefits, severance pay, pensions, transport allowance, and overtime pay. The degree of employee's satisfaction on financial compensation they receive is able to influence their desire to remain in the company or out of the job. Nonfinancial compensation also has a significant negative effect on turnover intention. Non-financial compensation in coal mining support companies in South Kalimantan can be in the form of job promotion, self-development, and work environment (the comfort to work and to coworkers). Nonfinancial compensation received by employees can have an impact on confidence, sense of worth, job satisfaction, and loyalty so they do not want to leave the workplace. For those who are recruited locally and some local and unmarried recruitment employees are generally not too concerned about financial compensation, but more to non-financial compensation in the form of confidence and seek opportunities to increase knowledge about the work. The results of this study support the studies of Ghafoor (2017), Rubel and Kee (2015), Nyaribo and Nyakundi (2016), and Asiago (2015) who found that financial compensation and nonfinancial compensation had a significant negative effect on turnover intention.

### 5. CONCLUSION

Based on the results of the analysis that has been done in this study, it can be concluded that the financial compensation, both direct (salary, incentive, commission, and bonus) or indirect (insurance allowances, severance, pension, transportation or leave and overtime) compensation and non-financial compensation in the form of job promotion, personal development, and work environment have a negative and significant effect on turnover intention on employees of mining companies in South Kalimantan. The results of this study can provide practical implications for the development of human resources at employees of mining companies in South Kalimantan to pay more attention to the financial and nonfinancial compensation dimensions because these dimensions have impacts to minimize the desire to switch jobs that certainly harm the company.

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