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The Effect Of Compensation, Empowerment, And Job Satisfaction On Employee Loyalty

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Abstract

The purpose of this research is to analyze the direct influence of compensation, empowerment, and job satisfaction to employee loyalty, to analyze direct influence of compensation and empowerment to job satisfaction, to analyze direct influence of empowerment to job satisfaction and to analyze the direct influence to compensation to empowerment. This is a quantitative research using survey method, and the data analysis is path analysis. The conclusion of this research shows that there is direct positive influence of compensation, empowerment, and job satisfaction to employee satisfaction. There is a direct positive influence of compensation and empowerment to job satisfaction. There is a direct positive influence of compensation to empowerment.

Keywords: Compensation, empowerment, job satisfaction, and employee loyalty.

Introduction

Employee loyalty is the employee obedience to work in company where one makes his/her living. Reichheld (2003) loyalty is the willingness of an employee investment in or sacrifices for the organization to strengthen a relationship. We can say that an employee is loyal to his or her organization when he/she shows commitment and beliefs that working in the organization is the best option for him or her. Waqas *et al.*, (2014). A loyal employee is one who is highly committed in developing the organization where he or she works. However, due to some factors that can affect loyalty, some loyal employees can become disloyal and move to other company that guarantee their future. There are some factors that can affect employee's loyalty. Some of the presumption factors are compensation, empowerment, and job satisfaction,

Compensation is one and main motivation for employee. As Sinamble (2016) states that employee use their knowledge, power, time and commitment not only serving the organization, but also to expecting reward for the work and productivity they have resulted. Erisman and Arini (2016) explain that compensation plays important role in drawing people to work creatively and feel comfortable in the company. Therefore, it is crucial to decide the proper compensation that is just and useful. Some research has shown that compensation affect positively to employee loyalty. Study done by Ivancevich, Konopaske and Matteson (2014) stated; there is little research on the relationship between reward and oganizational commitment. Commitment to an organization inveloves three attitudes: (1) a sense of identification with the organizational's goals, (2) a feeling of involvement in organizational duties, and (3)a feeling of loyalty to the organization. Studi from Robbin and Judge (2015) stated that organization that pays well will get employee with better qualification, and highly motivated to stay longer in the organization.

Empowerment is an effort to empower employee through change and human development in the form of delegating authority, responsibilities, and trust in organization operation in order to improve employee performance and loyalty. A study by Lee (2010) found that employees who had a high acceptance of empowerment had a higher sense of loyalty to the organization and were willing to accept any additional task if necessary and needed by the employer.

Job satisfaction is an attitude that describes if one feels happy or unhappy, satisfied or dissatisfied in doing his/her jobs. The nature of job satisfaction basically is actually individual. Everyone has different level of satisfaction, and job satisfaction as the emotional responses to different aspects towards the job. The nature of satisfaction differs among employees. According to the research by Prabhakar (2016), high job satisfaction and workplace environment have positive relation with employee loyalty. Research done by Pandey and Khare (2012) shows that there is an impact of job satisfaction and organizational commitment on employee loyalty.

Objectives

The purpose of this research is to analyze the direct influence of compensation, empowerment, and job satisfaction to employee loyalty, to analyze direct influence of compensation and empowerment to job satisfaction, to analyze direct influence of empowerment to job satisfaction and to analyze the direct influence to compensation to empowerment.

Literature review Employee loyalty

Pandey and Khare, (2012) employee loyalty can be defined as employees being committed to the success of the organization and believing that working for this organization is their best option. Robbins dan Coulter (212) loyalty is willingness to protect a person, physically and emotionally. Khuong and Tien (2013) Loyalty is the willingness of an employee invest in or sacrifices for the organization to strengthen a relationship. Thus, loyalty is characterized by the intention to engage with the organization in long term, which plays a positive role in retention of members in the organization. Further Pereira, (2010) explained that loyalty is the glue or binding of the relationship between the organization and the employee. Then Powers explain employee loyalty as specific actions and behaviors participating in employer's activities, willing to stay late to finish projects or organizational goals, or helping colleagues (Lee, 2010). Chen and Lin (2013) explained employee loyalty can be defined as the degree to which people feel a part of the organization. Employees possessing higher organizational loyalty work hard, commit to the organization, and so on.

It can be concluded that employee loyalty is compliance committed by employees to the organization where he works, in which there is obedience and responsibility and strive to provide the best service and behavior with indicators; (1) Obedience to the rules, (2) ability to perform tasks, (3) Willingness to cooperate, (4) ownership and (5) work attitude.

Compensation

According to Gaol (2014) the compensation is accepted by the employee either in the form of money or not money as remuneration given to the employee's efforts to the organization. According Wibowo (2016) compensation is a counter-achievement of the use of labor or services that have been provided by the workforce. Compensation is the number of packages the organization offers to workers in return for its labor usage. According to Mondy (2014) the total compensation of all rewards is provided to employees in return for the services.

Handoko (2014) explains that the objectives of compensation to be achieved are to obtain qualified personnel, retain existing employees, ensure justice, respect the desired behavior, control costs and meet legal regulations. The purpose of granting compensation is none other than to gain potential and competent employees considering that companies are competing against each other to obtain competent human resources, good behavior and justice in compensating and obeying the regulations outlined by the government.

Colquitt, et al, (2010) states that there are three elements to be considered in designing a compensation system that is: 1) individual-focused, 2) unit-focused, dan 3) Organization-focused. In the provision of compensation there are several factors that can influence it according to Cascio (2013) factors are: (1) labor market conditions, (2) legislation, (3) collective bargaining, (4) mangerial attitude and an organization's ability to pay. Mondy (2014) the factors that affect the compensation are (1) compensation policies, (2) organization level, (3) ability to pay, (4) compensation surveys, (5) expediency, (6) cost of living, (7) labor

unions, (8) the economy, and (9) legislation.

From the above opinion it can be synthesized that the compensation is any kind of financial or non-financial rewards either directly or indirectly received by an employee or individual in exchange for the performance of the task of the organization, with indicators: (1) salary and incentives, (2) allowances, (3) rewards.

Several research results indicate that the compensation effect on employee loyalty. Hosain (2014) explains that: the majority of the research has occurred in the fields of management and human resources. The performance of feedback and reward systems can have a significant impact on perceived employee empowerment, task motivation and performance. Compensation has a direct positive effect on employee loyalty, (Pramana, Suryoko and Widiartanto, 2014, Stephani and Wibawa 2016). Waqas, et al (2015) found that reward and recognition variables affect employee job satisfaction. Saeed, et al, (2013) variable pay and promotian affect employee job satisfaction.

Empowerment

Ivancevich, Konopaske, and Matteson, (2014) empowerment is sharing power and authority with suborninates to increase their confidence and effectiveness. Noe, et al (2014) empowerment is giving employees responsibility and authority to make decisions regarding all aspects of product development or customer service. Gibson, et al (2009) empowerment is giving employees permission to make decisions to complate workloads on time.

Empowerment required employee involvement in decision making so that employees more innovation in doing their work and able to make decisions independently. This is as stated by Bohlander and Snell (2013) employee empowerment is a technique of involoving employees in thier work thought the process of inclusion. Empowerment encourages workers to be come innovators and managers of their own work, and it involoves them in their job in ways that give them more control and autonomous decision-making capabilities.

Based on the opinion of the experts above it can be synthesized that empowerment is granting authority and responsibility and wider opportunities to employees to develop their potential in order to carry out their work better, with indicators: (1) Authority, (2) Responsibility, (3)) (4) Training, (5) Knowledge and information, (6) Feedback, (7) Recognition of his achievement, (8) Trust, (9) Tolerance, and (10) treats employees respectfully and dignified.

Some studies explain empowerment affect employee loyalty. Fulford and Enz revealed that perceived empowerment does have an effect on loyalty (Rashdi, et al, 2009). Osborne (2002) further agreed that empowerment does have an influence on employees' loyalty level and their intention to leave the organization. When employees feel that they are empowered, their sense of control and authority over others or work makes them want to stay (Osborne, 2002). Fulford and Enz found that a global measure of employee empowerment accounted for 35 percent of the variation in employee loyalty (Rashdi, et al, 2009).

Job Satisfaction

According Colquitt, et al, (2013) Job satisfaction is defined as a pleasurable emotional state resulting from the appraisal of one's job or job experiences. Robbins dan Judge (2015) explains that job satisfaction is a positive feeling about a job, resulting from an evaluation of its characteristics. Then Luthans (2011) explain job satisfaction a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience. Job satisfaction is a result of employees perception of how well their job provide those thing that are viewed as important.

From the opinion of the experts above it can be synthesized that job satisfaction is a pleasant or unpleasant attitude felt by employees that arise as a result of work performed, with indicators: (1) Fun work, (2) Rewards are appropriate, (3) Working conditions, (4) Coworkers, and (5) Work personality suitability.

Some empirical studies have found that job satisfaction has a significant effect on employee loyalty. Lee (2010) describes the five dimensions of leadership empowerment, participating in decision making, confidence in high performance, and autonomy influenced job satisfaction while confidence in high performance influenced employee loyalty. Khuong and Tien (2013) The findings of this study indicated that the higher levels of satisfaction, supervisor support, fringe benefits, teamwork, working environment, and training were positively associated with the higher level of organizational loyalty. The factors of satisfaction, supervisor support, teamwork, and working environment play crucial roles and significantly affect

employees loyalty. Based on the results of the path analysis, this study argued that in order to achieve high employee loyalty, companies in banking industry should achieve high level of employee job satisfaction, enhance supervisor support and teamwork among employees, and provide good working environment. Based on the literature reviewed, the following hypotheses were formulated:

- H1. Compensation has a direct positive effect on employee loyalty.
- H2. Empowerment has a direct positive effect on employee loyalty.
- H3. Job satisfaction has a direct positive effect on employee loyalty.
- H4. Compensation has a direct positive effect on employee job satisfaction.
- H5. Empowerment directly positive effect on employee job satisfaction.
- H6. Compensation has a direct positive effect on employee empowerment.

Conceptual framework



Research methodology

This research uses quantitative approach with survey method, Population in this research is all employees of Muhammadiyah University of Bengkulu Indonesia which amounted to 149 people. Of the total population is taken a sample of 109 people using the Slovin formula. The technique used is proportional random sampling. Data collection method used is questionnaire, in the form likert scale. Data analysis technique used is path analysis.

Result Sub-structure model 1

Tabel 1. Coefficients Sub-Structure 1

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		Unstandardized Coefficients		Standardized Coefficients		
	Model	В	Std. Error	Beta	t	Sig.
1	(Constant)	4,812	5,746		,837	,404
	Compensatio n (X1)	,147	,061	,159	2,420	,017
	Empowerme nt (X2)	,433	,069	,458	6,307	,000
	Job Satisfaction (X3)	,346	,072	,354	4,816	,000

a. Dependent Variable: Employee loyalty (Y)

H1. Compensation has a direct positive effect on employee loyalty.

Statistical hypothesis tested:

$$H_0 = \beta_{y1} \le 0$$

$$H_1 = \beta_{y1} > 0$$

The result of analysis in table 1. above by using backward method, obtained path coefficient contained in column Standardized Coeffisients (Beta) that coefficient of path $p_{y1} = 0.159$; $t_0 = 2.420$, p-value = 0.017 < 0.05, then H_0 is rejected H_1 accepted. This means that the Compensation variable (X_1) has a direct positive effect on employee loyalty (Y).

H2. Empowerment has a direct positive effect on employee loyalty.

Statistical hypothesis tested:

$$H_0 = \beta_{y2} \le 0$$

$$H_1 = \beta_{v2} > 0$$

The analysis result obtained coefficient path $p_{y2} = 0.458$; $t_0 = 6.307$, p-value = 0.000 < 0.05, then H_0 is rejected H_1 accepted. This means the empowerment variable (X_2) has a direct positive effect on employee loyalty (Y).

H3. Job satisfaction has a direct positive effect on employee loyalty.

Statistical hypothesis tested:

$$H_0 = \beta_{v3} \le 0$$

$$H_1 = \beta_{v3} > 0$$

Path analysis result obtained $p_{y3} = 0.354$; $t_0 = 4.816$, p-value = 0.000 <0.05, then H_0 is rejected H_1 accepted. This means that job satisfaction variable (X_3) has a direct positive effect on employee loyalty (Y)

Sub-structure model 2

Tabel 2. Coefficients Sub-Structure 2

Coefficients^a

		Unstandardized Coefficients		Standardized Coefficients		
Mode	1	В	Std. Error	Beta	t	Sig.
2	(Constant)	24,734	7,392		3,346	,001
	Compensati on (X1)	,282	,077	,297	3,642	,000
	Empowerme nt (X2)	,502	,079	,519	6,358	,000,

a. Dependent Variable: Job satisfaction (X3)

H4. Compensation has a direct positive effect on employee job satisfaction.

Statistical hypothesis tested:

$$H_0 = \beta_{31} \le 0$$

$$H_1 = \beta_{31} > 0$$

The results of analysis in table 2 above, using backward method, obtained path coefficient contained in the column Standardized Coeffisients (Beta), $p_{31} = 0.297$; $t_0 = 3,624$, p-value = 0,000 < 0,05, then H_0 is rejected, H_1 is accepted. This means that the Compensation variable (X_1) has a direct positive effect on job satisfaction (X_3) .

H5. Empowerment directly positive effect on employee job satisfaction.

Statistical hypothesis tested:

 $H_0 = \beta_{32} \le 0$

 $H_1 = \beta_{32} > 0$

Test results with path analysis obtained coefficient $p_{32} = 0.519$; $t_0 = 6.358$, p-value = 0.000 < 0.05, then H_0 is rejected, H_1 is accepted. This means the empowerment variable (X_2) has a direct positive effect on job satisfaction (X_3) .

Sub-structure model 3

Tabel 3. Coefficients Sub-Structure 3

Coefficients^a

		Unstandardized Coefficients		Standardized Coefficients		
Mo	del	В	Std. Error	Beta	t	Sig.
3	(Constant)	44,202	7,983		5,537	,000
	Compensati on (X1)	,575	,077	,587	7,500	,000

a. Dependent Variable: Empowerment (X2)

H6. Compensation has a direct positive effect on employee empowerment.

Statistical hypothesis tested:

 $H_0 = \beta_{21} \le 0$

 $H_1 = \beta_{21} > 0$

Based on table 3 the above coeficients obtained $p_{21} = 0.587$ $t_0 = 7,500$, p-value = 0.000 < 0.05, then H_0 rejected H_1 accepted. This means that the Compensation variable (X_1) has a direct positive effect on the Empowerment variable (X_2) .

Discussion

The effect of compensation on employee loyalty

Compensation has a direct positive effect on employee loyalty. This means that the greater the compensation given to employees then the employee loyalty will be increasing. The results of this study received research support by Hwang and Wang (2013) who conducted research on organizational loyalty to telecommunication industry employees in Taiwan. This empirical result illustrates that staffing management and compensation management influence organizational loyalty. Ivancevich, Konopaske and Matteson, (2014) provide an explanation that the reward effects employee perceptions, and behavior in a variety of ways. In turn organizational efficiency and effectiveness are affected. Three important organizational concerns influenced by rewards are turnover, absenteeism, performance and commitment. Giving compensation in accordance with employee performance will be able to increase loyalty. As Robbin and Judge (2015) which says it pays wages or greater compensation, and you will get better qualified, highly motivated workers who will last long with the organization.

The effect of empowerment on employee loyalty

The results of this study indicate that empowerment has a direct positive effect on employee loyalty. This means the better the empowerment is done to the employee so the employee loyalty will increase. The results of this study is consistent with the research of Lee (2010) that employees who have a high acceptance of empowerment have a higher sense of loyalty to the organization and are willing to accept any additional task if necessary and needed by the employer. Hassan, et al. (2013) finds the relationship between the employee compensation, employee empowerment, appraisal system, employee satisfaction & employee loyalty, therefore correlation analysis was performed to test the relationship among these variables. Boussalem (2014) which explains that there is a significant influence between employee empowerment to organizational loyalty.

The effect of job satisfaction on employee loyalty

The results of this study indicate that job satisfaction has a direct positive effect on employee loyalty. This means that the higher the employee job satisfaction hence the employee loyalty will increase. The results of the study are consistent with the research of Noor and Jamil (2013) who conducted employee loyalty research in the sector of governmental organizations in Pakistan, the results show that the selected variables have had an employee's loyalty. Nagra and Ifhe (2011) the findings of this paper indicate that employee loyalty and employee loyalty; at the same time the consequences of employee loyalty such as absenteeism and intention to quit do not have any significant effect. Vokic and Hernaus (2015) stating that Job satisfaction has a significant and positive effect on both work engagement and employee loyalty.

Job satisfaction of employees will be shown through employee behavior by showing a happy attitude or not happy with the work he did. If employees feel satisfied with what is obtained from the company, then employees will give results that exceed the target company as well if employees are not satisfied with what is obtained from the company then the work of employees will not be as expected.

Employees who feel satisfied will continue to increase loyalty work to help the achievement of corporate goals, so job satisfaction can be an indicator in determining employee attitudes toward the company. In the world of work, not a few employees feel uncomfortable and dissatisfied with their work, for various reasons, such as unsuitable and less challenging jobs, inappropriate rewards, unfavorable working conditions and unskilled employment with the employee's personality, so that the employee prefer to move to another company. Unlike employees who feel comfortable and satisfied they choose to stay and continue to contribute the best, high commitment and good loyalty.

The effect of Compensation on Job Satisfaction

The results of this study indicate compensation directly positive effect on job satisfaction. This means that the higher the compensation to employees so the employee job satisfaction will increase. The results of this study are supported by the results of research conducted by Malik, Danish, Munir (2012), who conducted research on higher education institutions in Punjab Province of Pakistan. Research respondents were teachers. This research examined the impact of pay and promotion on job satisfaction at the university level of Punjab. The findings reveal that pay has significant impact on the job satisfaction of the promotion or significant impact on the job satisfaction of educationalist. Muguongo, Muguna, Muriithi (2015), the study established that the basic pay, allowances and work environment affects teachers' job satisfaction to a great extent. The research concluded that teachers were highly dissatisfied with all the compensation that they receive.

The effect of empowerment on job satisfaction

The results of this study indicate empowerment directly positive effect on job satisfaction. This means that the greater the effectiveness of employees to employee work will increase. The results of this study received research support conducted by Khera (2015) who conducted research on the effect of employee empowerment to job satisfaction of bank employees throughout Chandigarh City India. Regression analysis indicated that employee empowerment has positive and significant impact on job satisfaction.

The effect of compensation on empowerment

The results of this study indicate that compensation has a positive direct effect on empowerment. This means that the greater the compensation to employees then employee empowerment will increase. The results of this study are supported by the results of research Salajeghe, Rezaei and Ahmadi (2015) who conducted research on the factors that affect empowerment in the employee section of the highway and transportation provinces Golestan Iran. The results show that there is a significant relationship between the organizational system of rewards and employee empowerment of Golestan provinces' Department of Roads and Transportation. Hassanpoor et al., (2012) the study found there is a significant relationship between organizational factors, supervision style, reward system and job design with psychological empowerment.

Conclusions

The conclusion of this research shows that there is direct positive influence of compensation, empowerment, and job satisfaction to employee satisfaction. There is a direct positive influence of compensation and empowerment to job satisfaction. There is a direct positive influence of compensation to empowerment.

Recommendation

Compensation, empowerment, and job satisfaction have a direct positive effect on employee loyalty. organizations can increase employee loyalty, job satisfaction, empowerment and compensation because it plays an important role in improving employee performance and organizational performance.

For further researchers to continue this research with different independent variables such as leadership, and organizational commitment, because these variables can affect employee loyalty.

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