The Effect of Compensation on Employee Turnover Intention at MSMEs in Denpasar City: Job Satisfaction as Mediation

I Putu Agus Adi Wiguna¹, Ida Ayu Putu Widani Sugianingrat², I Made Astrama³
1. Magister Management, Faculty of Business and Tourism Economics, Hindu Indonesia University, Denpasar-Bali
2. Faculty of Business and Tourism Economics, Hindu Indonesia University, Denpasar-Bali
e-mail: wiguna.agusadi.05@gmail.com

Abstract

**Keywords:** Compensation, Job satisfaction, Turnover intention

**Purpose** – HR problems in MSMEs need special attention because they have an impact on the development of the business and also contribute to the government. The purpose of this study was to analyze the effect of compensation on turnover intention through job satisfaction.

**Methodology** – The research used an explanatory approach with quantitative methods. The research population is employees in the culinary sector MSMEs in Denpasar City. The number of samples in this study using the Lemeshow formula with a total of 96 people determined using purposive sampling. The research instrument used a questionnaire and the data analysis technique was inferential with Structural Equation Model-Partial Least Square (SEM-PLS) analysis.

**Findings** – The results showed that compensation affects turnover intention directly or through mediation of job satisfaction. This applies to employees of culinary sector MSMEs in Denpasar City.

**Originality** – MSMEs managers are expected to always follow the policy of compensating employees and also evaluate the compensation policy and provide information to employees regarding the compensation assessment system so that there is satisfaction in employees.

1. **Introduction**

Human resources are an important factor in an organization because their performance counts towards realizing the company's vision and mission (Suryani et al., 2020). Many businesses are starting to pay full attention to their employees to retain competent employees.
However, changes in environmental conditions can affect various policies and ultimately lead to the intention to move for employees so that actual turnover occurs. Turnover intention is the tendency of an employee to have the desire to leave the company voluntarily or involuntarily due to low interest in the current job and the availability of other job alternatives. High turnover rates have a negative impact, disrupting company operations and creating morale problems for employees who remain (Rofi’i 2014). Other impacts can be seen in organizational instability, especially in the workforce, as well as increased human resource costs in the form of training costs that have been invested in employees and increased recruitment and retraining costs (Siwi et al., 2016). In Micro, Small and Medium Enterprises (MSMEs), the high rate of employee turnover is one of the obstacles to business development. The exit of employees results in ineffective organizational performance because the organization loses experienced employees or has special competencies and needs to retrain new employees (Susetyo, 2016). So, it is necessary to identify the factors that influence turnover intention because it is an important thing to consider in order to reduce the actual turnover rate.

Employee turnover tendencies are usually influenced by perceived displeasure (Zaki & Marzolina, 2016). One of these displeasures is the reward received in the form of compensation. Compensation is one of the important factors and is a concern for many organizations to maintain and attract quality human resources. Providing compensation for employees is one of the company's complex tasks and is an important aspect for both employees and companies (Rasyid & Indarti, 2017). Compensation in accordance with employee expectations will be able to retain employees. Meanwhile, deviations in compensation will increase the desire to move (Rofi’, 2014). There are two types of compensation, monetary compensation means that compensation is paid in the form of cash to the employee concerned. While non-financial compensation means that compensation is paid in goods or guarantees (Armantari et al., 2021).

In this study, it is suspected that the desire to leave is due to the dissatisfaction felt by employees. One of the factors that influence turnover intention is job satisfaction (Sastrawan et al., 2022). The problem of job satisfaction is a fundamental thing that is felt to influence a person's thinking about leaving his place of work and trying to find another job that is better than the previous workplace (Fransita, 2016). To increase employee satisfaction with their work, the company must adjust the level of compensation received according to their work, provide promotions for employees who are able to develop in achieving company targets, and provide facilities for employees (Saputra et al., 2018).

Turnover can be detrimental to an organization as it can lead to a shortage of skilled personnel in the labor market and cause high education costs for new employees. So that turnover is said to be the main factor that harms a business. Based on data from the Badan Pusat Statistik (BPS), Denpasar City has the highest open unemployment rate in August 2021 reaching 7.02%. The unemployment rate is an indicator that shows the level of welfare due to economic development (Nugroho & Suartina, 2021). The development of MSMEs in the future will be even greater with the transformation of the economy from relying on natural resources to a knowledge-based economy (Ariani, 2022). Many literatures reveal that MSMEs absorb a very large labor force. The phenomenon that occurs as revealed by Lalitadevi et al. (2020) states that 2 out of 10 MSMEs employees leave every month. Meanwhile, almost 63% of SMEs stated that they faced difficulties in overcoming the impact of massive resignations (itworks.id, 2022). So, companies need to pay attention to employees so that each employee can contribute well to the company. Based on the Employment Situation of Bali Province in August 2019, the highest labor absorption is Denpasar City. However, based on observations of several business managers in
Denpasar City, it is very difficult to get workers and there have been many employees who have left without a handover or quit suddenly. It was conveyed that many workers in Bali are paid below the Provincial Minimum Wage (UMP), in addition to small salaries below the UMP provisions, there are still many problems regarding labor and company relations (radarbali.jawapos.com, 2020). This shows that there is a gap that must be researched. So that HR problems in MSMEs in Denpasar City need special attention because there is rarely research that discusses employee turnover in MSMEs which actually has a huge impact on the development of the business itself and also contributes to the government.

According to Law No. 20/2008, a small business is a productive business that stands alone and is carried out by an individual or business entity that is not a subsidiary or branch of a company that is owned, controlled, or part of either directly or indirectly a medium or large business that meets the criteria of a small business as referred to in the law. In the Law, the criteria used to define MSMEs as stated in Article 6 are net worth or asset value excluding land and buildings of the place of business, or annual sales proceeds. In addition to using monetary value as a criterion, a number of government agencies, such as the Ministry of Industry and the Central Statistics Agency (BPS), have also been using the number of workers as a measure to distinguish between micro, small, medium and large enterprises. According to BPS, micro enterprises are business units with up to 4 permanent workers, small enterprises between 5 and 19 workers, and medium enterprises from 20 to 99 workers. Companies with more than 99 workers are categorized as large businesses.

Further rules regarding the provisions of MSMEs are contained in Law Number 11 of 2020 on Job Creation and Government Regulation Number 7 of 2021 on the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises. There are seven laws related to MSMEs that are amended in the Job Creation Law. Two of the most important ones are Law No. 20/2008 on micro, small and medium enterprises and Law No. 25/1992 on cooperatives. Where the central government and local governments have given more attention in terms of financing to MSMEs who request legal assistance and assistance services such as legal counselling, legal consultation, mediation, and out-of-court assistance. Whereas Law No. 20/2008 on MSMEs previously did not comprehensively regulate legal protection for MSMEs. One of the various factors that need to be of concern to companies to reduce employee turnover rates, especially in MSMEs, is the company's strategy for managing its human resources. Satisfaction with compensation is one of the important factors and is a concern for many organizations to maintain and attract quality human resources. Meanwhile, unattractive compensation causes some human resources to leave the organization, resulting in a high labor turnover rate.

Theory of Planned Behavior (TPB) is used to explain a person's intention to perform certain behaviors. Intentions are an indication of how hard a person is willing to try the various efforts they plan to perform behaviors. TPB is widely used in research in many different fields of study and has proven successful in explaining intentions towards performing certain behaviors such as in the fields of health, leisure choices, psychology, sociology and information technology. This research itself refers to the TPB model, by adding job prospects variables that influence attitudes and influence job search intentions.

Based on the background of the problem, theoretical studies, and previous research, a framework can be put forward that compensation has an influence on job satisfaction and turnover intention which can be seen in Figure 1:

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Turnover intention is the tendency or intention of employees to quit their jobs voluntarily or move from one workplace to another according to their own choices. Turnover as a conscious and planned desire to leave the organization. Turnover occurs when an employee considers leaving the organization through personal choice. The turnover phenomenon is the last resort for employees in the company when employees find working conditions are no longer as expected. One of the factors that create employee intention to transfer is compensation. Compensation is all income in the form of money, direct or indirect goods received by employees in exchange for services provided to the company. Compensation is an important component in relation to employees, if the compensation provided by the company is proportional to the work, the employee will feel satisfied with the results obtained. The higher the level of satisfaction felt by employees, the higher the level of employee commitment to the company. The relationship between compensation and turnover intention has been widely conducted. Some studies get results such as Reza et al. (2017), Masenya et al. (2020) and Dhananjaya & Dewi (2018) found that compensation has a significant negative effect on turnover intention where high compensation will keep employees in the company. Research by Wulandari & Prahiawan (2019) and Harahap & Khair (2020) shows that compensation has a positive and significant effect on job satisfaction.

\[ H_1: \text{Compensation has a significant negative effect on turnover intention among employees of MSMEs in the culinary sector in Denpasar City.} \]

\[ H_2: \text{Compensation has a significant positive effect on job satisfaction among employees of MSMEs in the culinary sector in Denpasar City.} \]

In order to strengthen research on job satisfaction, everyone wants two kinds of need factors, namely the need for health or the need for maintenance. This is related to the nature of man who wants to obtain outward peace. Maintenance factors include compensation, physical working conditions, job security, pleasant supervision, official car, official house, and various other benefits. The loss of these maintenance factors can lead to dissatisfaction and employee absenteeism and turnover rates will increase. These maintenance factors need to get reasonable attention from leaders so that employee satisfaction and morale can be improved. In addition to the above maintenance factors, compensation factors are also seen as influencing worker productivity or performance. Even if compensation is based on performance criteria, if employees perceive it as low, the result will be low work performance, decreased job satisfaction and increased turnover and absenteeism. The occurrence of turnover is caused by employees'
displeasure with their work and will look for alternative job opportunities. Job satisfaction is a feeling of well-being, good feeling, and positive mental state that arises in a worker for the rewards he gets as a result of his performance (Onukwube, 2012). Job satisfaction refers to people's attitudes and feelings about their performance. Most employees take pride in their various jobs because of satisfaction. The results of Olawale & Olarewaju (2016) research concluded that job satisfaction has a positive and significant effect on turnover intention. Onukwube (2012), Olawale and Olarewaju (2016), and Nazenin & Palupiningdyah (2014) found that job satisfaction has a negative and significant effect on turnover intention. Research by Zaki & Marzolina (2016), Agustin (2018) and Sutikno (2020) found that job satisfaction is able to mediate the effect of compensation on turnover intention.

H3: Job satisfaction has a significant positive effect on turnover intention among employees of MSMEs in the culinary sector in Denpasar City.

H4: Compensation has a significant negative effect on turnover intention through job satisfaction among MSME employees in the culinary sector in Denpasar City.

2. Research Method

The research design used in this research is the explanatory research. This research was conducted to examine and explain the influence of the variables to be studied, namely the compensation, job satisfaction and turnover intention. This study limits the scope of research to the subject as respondents, namely the culinary sector MSMEs in Bali Province, especially Denpasar City. The sample in this study totaled 96 employees from 24 MSMEs spread across four sub-districts in Denpasar City. The research instrument used a questionnaire and the data analysis technique with Structural Equation Model-Partial Least Square (SEM-PLS) analysis. The research instruments used in this study are as follows:

a. Turnover intention (Y2)
   Turnover intention is the tendency of employees in the culinary sector MSMEs in Denpasar City who have the desire to leave the organization or voluntarily resign from their jobs. The indicators used in this study are thinking of quitting, intention to search for alternatives, intention to quit.

b. Compensation (X2)
   Compensation is the perception of employees in the culinary sector MSMEs in Denpasar City related to all rewards received by employees as a reward for their work. The dimensions used in this study are financial compensation with indicators salary, wages and incentive, while non-financial is measured by compensation provided by the company in accordance with the employment agreement, provision of leave, and job security.

c. Job Satisfaction (Y1)
   Job satisfaction is a pleasant or unpleasant emotional feeling felt by employees in the culinary sector MSMEs in Denpasar City. The indicators used are the work itself, salary, promotion, superiors, and coworkers.

3. Results and Discussions

The results of data collection and characteristics of respondents in the study are divided into several groups according to type of business, gender, age, and latest education which will be described as follows:
Based on Table 1, it can be seen that out of 96 respondents, 32 respondents work in micro businesses, 44 work in small-scale businesses and 20 work in medium-scale businesses. Based on gender, there are 47 male, and 49 females. This is because this research is focused on the culinary sector which uses more female labor. Meanwhile, based on age it is dominated by age <20 years as many as 55 people, age 21-30 years 23 people, age 31-40 years 18 people. This is because age under 20 years is a productive and is looking for work experience. Based on the level of education, 68 people were dominated by the latest high school / vocational high school education and 28 people had a diploma. This explains that many MSMEs absorb labor with the last education of high school or vocational high school.

The path diagram structure is used to describe the relationship between latent variables, both exogenous latent variables and endogenous latent variables, including the indicators that make up these latent variables in the form of a relationship diagram shown in Table 1 below:

**Table 2. Path coefficient**

<table>
<thead>
<tr>
<th></th>
<th>Original Sample (O)</th>
<th>Sample Mean (M)</th>
<th>Standard Deviation (STDEV)</th>
<th>T Statistics (O/STDEV)</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation-&gt; Job Satisfaction</td>
<td>-0.331</td>
<td>-0.339</td>
<td>0.058</td>
<td>5.692</td>
<td>0.000</td>
</tr>
<tr>
<td>Compensation-&gt; Turnover Intention</td>
<td>-0.551</td>
<td>-0.553</td>
<td>0.092</td>
<td>6.001</td>
<td>0.000</td>
</tr>
<tr>
<td>Job Satisfaction-&gt; Turnover Intention</td>
<td>-0.223</td>
<td>-0.220</td>
<td>0.090</td>
<td>2.488</td>
<td>0.013</td>
</tr>
</tbody>
</table>

Source: data processed

a. The relationship between compensation and job satisfaction obtained an original sample value of 0.331 with a significance lower than 0.05, which means that compensation has a significant positive effect on job satisfaction.
b. The relationship between compensation and turnover intention obtained an original sample value of -0.551 with a significance lower than 0.05, which means that compensation has a significant negative effect on turnover intention.

c. The relationship between job satisfaction and turnover intention obtained an original sample value of -0.223 with a significance lower than 0.05, which means that job satisfaction has a significant negative effect on turnover intention.

Table 3. Indirect Effect

| Compensation-> Job Satisfaction -> Turnover Intention | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (|O/STDEV|) | P Values |
|-------------------------------------------------------|---------------------|----------------|---------------------------|-----------------------|---------|
| -0.074                                                | -0.073              | 0.030          | 2.495                     | 0.013                 |         |

Source: data processed

Table 2 shows the indirect relationship between compensation and turnover intention through job satisfaction. The relationship between all constructs is positive. Based on Table 1, it can be seen that the direct relationship between compensation and turnover intention is significant. Because the direct and indirect relationships are significant, it can be explained that job satisfaction is a partial mediating variable between compensation and turnover intention.

The Effect of Compensation on Employee Turnover Intention in Culinary Sector MSMEs in Denpasar City

Based on the results of the analysis of the effect of compensation on turnover intention, it is obtained that t-count (6.601)> t-table (1.96) with a significance level of 0.000 <0.05, so that h0 is rejected with a negative coefficient of 0.551 which means that compensation has a significant negative effect on turnover intention in culinary sector MSMEs employees in Denpasar City. This explains that the increase in compensation provided by business owners to employees will reduce employees' desire to leave.

Turnover as a conscious and planned desire and desire to leave the organization. Turnover occurs when an employee considers leaving the organization through personal choice. The turnover phenomenon is the last resort for employees in the company when they find working conditions are no longer as expected. Compensation is one of the rights that must be received by employees. With a compensation policy that is considered sufficient for employees, these employees will be willing to try their best to work for a business. In MSME employees in Denpasar City, it is proven that the high compensation received by employees will reduce their intention to leave the business. Meanwhile, the reason why employees in MSMEs in Denpasar City are currently often looking for job vacancies is because the compensation is considered not good. Based on the characteristics of the respondents, there are more employees under the age of 20, which causes employees to still want to find work experience in a new place. This is in accordance with the research of Reza et al. (2017) and Masenya et al. (2020) and Dhananjaya & Dewi (2018) found that compensation has a negative and significant effect on turnover intention.

The Effect of Compensation on Employee Job Satisfaction in Culinary Sector MSMEs in Denpasar City

Based on the results of the analysis of the effect of compensation on job satisfaction, it is obtained that t-count (5.693)> t-table (1.96) with a significance level of 0.000 <0.05, so that h0 is
rejected ha is accepted, which means that compensation has a significant positive effect on employee job satisfaction in the culinary sector MSMEs in Denpasar City. The resulting coefficient of 0.331 indicates that the higher compensation received by employees will increase employee satisfaction.

Compensation is all income in the form of money, direct or indirect goods received by employees in exchange for services provided to the company. Compensation is an important component in relation to employees, if the compensation provided by the company is proportional to the work, the employee will feel satisfied with the results obtained. If compensation is managed properly, it will increase job satisfaction and vice versa, if compensation is not managed properly, it can reduce job satisfaction. Therefore, organizational attention is needed to the correct and fair compensation arrangements, if employees view their compensation as inadequate, their job performance and job satisfaction will decrease. In MSME employees in Denpasar City, it is evident that one of the reasons for employee satisfaction is the compensation received. Employees in MSMEs in Denpasar City on average are satisfied with the guarantees provided, but inappropriate incentives cause them to be less satisfied. This is in accordance with research by Harahap & Khair (2020) and Wulandari & Prahiawan (2019) showing that compensation has a positive and significant effect on job satisfaction.

The Effect of Job Satisfaction on Employee Turnover Intention in Culinary Sector MSMEs in Denpasar City

Based on the results of the analysis of the effect of competitive advantage on business performance, it is obtained that t-count (2.488) > t-table (1.96) with a significance level of 0.013 <0.05, so that h0 is rejected ha is accepted, which means that job satisfaction has a significant positive effect on employee turnover intention in the culinary sector MSMEs in Denpasar City. The coefficient obtained of -0.223 indicates that the higher the level of employee satisfaction, the lower the desire to change workplaces.

Job satisfaction is a feeling of well-being, good feelings, and positive mental conditions that arise in a worker for the rewards he gets as a result of his performance (Onukwube, 2012). Job satisfaction refers to people's attitudes and feelings about their performance. A positive and favorable attitude towards work indicates job satisfaction, and an unfavorable negative attitude towards work indicates job dissatisfaction. In other words, job satisfaction can be defined as the extent to which individual needs are met and to the extent to which individuals feel that satisfaction comes from their total work situation (Salisu et al., 2015). In employees in MSMEs in Denpasar City, it is proven that dissatisfied employees will increase the desire to leave. The results of the study are in accordance with the findings of (Olawale & Olanrewaju, 2016) who concluded that job satisfaction has a positive and significant effect on turnover intention. Research by (Onukwube, 2012), Altahtoo (2018), and Nazenin & Palupiningdyah (2014) found that job satisfaction has a negative and significant effect on turnover intention.

The Role of Job Satisfaction in Mediating the Relationship Between Compensation and Employee Turnover Intention in Culinary Sector MSMEs in Denpasar City

Based on the results of the mediation analysis of the effect of compensation on turnover intention through job satisfaction, the direct and indirect significance results are 0.000 <0.005 so that h0 is rejected, ha is accepted, which means that job satisfaction is able to mediate the
The relationship between compensation and turnover intention in culinary sector MSME employees in Denpasar City.

The occurrence of turnover is caused by employee displeasure with their work and will look for alternative job opportunities. One indication of turnover problems can be seen from descriptive analysis where the highest value obtained in the indicator is actively seeking information about job vacancies. One of the causes of this desire is compensation in the form of financial and non-financial. Compensation can encourage employees' desire to stay at work or choose to leave the company. The compensation factor will also be able to increase job satisfaction. Deviations in compensation can increase turnover intention. However, with the provision of appropriate compensation, employees will feel satisfaction with the salary because what is received is in accordance with expectations. Employees will also feel satisfied with their work, satisfied with their leaders, with their co-workers and satisfied with the promotions given. So that in the end the satisfaction created will reduce his intention to leave the company because he has not thought about leaving the company and there is no desire to look for information on other places of work. This is in line with the research of Zaki & Marzolina (2016), Agustin, (2018) and Sutikno (2020) found that job satisfaction is able to mediate the effect of compensation on turnover intention.

4. Conclusions

This research emphasizes the importance of compensation-related policies that can be used to provide satisfaction and reduce turnover rates among employees of MSMEs in the culinary sector in Denpasar City. This is evidenced by the results of the study which concluded that compensation has a significant effect on turnover intention and job satisfaction is able to mediate the relationship between compensation and turnover intention. So that MSME managers or owners are expected to pay attention to the rules related to compensation policies. This is specific to financial compensation policies by considering government regulations regarding regional minimum wages. In addition, making correct calculations so that employee rights such as overtime incentives can be carried out consistently by utilizing current technology. Regarding non-financial policies, MSME managers need to pay attention to other employee needs, such as leave agreements and occupational health and safety insurance. Currently, the government has provided convenience through the Badan Penyelenggara Jaminan Sosial (BPJS) which can be taken into consideration. This guarantee not only provides a sense of security to employees, but will also reduce the worries of business managers when problems occur in business operations. Providing guarantees to employees is proof of the company's concern for employees. Through these considerations, it will be able to create a sense of satisfaction in employees so as to create employee loyalty which is shown by a loyal attitude towards the company. This turnover can also be anticipated by the existence of a work agreement, so that employees will consider the sanctions stated in the agreement when they want to leave suddenly.

5. References

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