

CHAPTER I

INTRODUCTION

A. Background

Established company will have their own objectives. Company's objectives can be increase their profit, maximize shareholder value, minimize risk and accountable to many stakeholders (Anthony and Govindaradjan, 2005). Management as the responsible operation of a company will always strive to reach the company's purposes so that companies have increase in value.

Mahoney et al. (1963) argue that the managerial performance is the performance of individual members of the organization in managerial activities. Managerial performance includes planning, investigating, coordinating, evaluating, staff supervising, setting, negotiating and representating. Managerial performance is needed in an organization because maximum managerial performance is expected to bring success for the company someone leads.

Business world is now required to create high employee performance for the development of the company. Schuler (1990) explains that managing resources within a company can improve competitiveness to face globalization. Company's success is influenced by several factors, one important factor is the power source of human beings. Human resources are the perpetrators of the overall level of planning to evaluation that can take advantage other resources owned by an organization or company. This is

similar to the opinion of Notoatmodjo (2003) which states that an agency must be supported by skilled human resources because human resources have an important role in running the business or activities within the agency. Therefore, the existence of human resources in a company hold the very important role. Labor has great potential for running the company's activities. Potential in each existing human resources in company should be utilized as effective as possible to provide optimal output.

Achievement of corporate objectives not only depends on the modern equipment, well-equipped facilities and infrastructure, but depends more on people who carry out such work. The success of an organization is greatly influenced by the performance of individual employee. Each organization or the company will always strive to improve the employee's performance, so that the company's goals will be achieved. Kasenda (2013) reveals that human resources is a central factor in an organization. The success or failure of an organization in performing its duties and functions are closely related to the employee of the organization, or in other words human resources have a strategic role in determining the success or failure of the organization achievement.

Damayanti (2013) says that the work performance can be improved by compensating and motivating the work, in which the employees will be more enthusiastic, more focus, and have more discipline attitude. Companies take several ways to improve the employee's performances, such as through education, training, compensation decent, creating a conducive working

environment and motivation. Through these processes, employees are expected to further maximize their responsibility for their work because the employees have been equipped by education and training course related to the implementation of their work. The provision of compensation, good working environment and the provision of motivation is basically the right of employees and an obligation of the company to support the contributions of its employees in order to achieve the predetermined goal.

Every member of an organization have his/her own interests and goals when they joined an organization. For some employees, expectation to acquire money is the only reason to work, but others argue that money is just one of many needs that meets through work. Someone who works will feel much appreciated by the people around them rather than not working. To ensure that the achievement of objectives alignment, organizational leaders can give attention by providing compensation. The employees will be more motivated to do responsibility for their jobs if companies understand and give proper attention to the needs of the employees who basically work to earn money, in this case in the form of salary. Providing better compensation will encourage employees to be more productive and work better (Hasibuan, 2012).

Compensation according to Hasibuan (2012) is all income in the form of money, goods directly or indirectly received by employees as a reward for services rendered to the company. The purposes of giving compensation among others are cooperative ties, job satisfaction, effective procurement,

motivation, employee stability, discipline, and the influence of trade unions and the government.

Compensation is an award or reward to workers who have contributed in realizing its objectives, through activities called work (Nawawi, 2001). Compensation is also a tribute provided by the employee, either directly or indirectly, a financial or non-financial fair to employees for their contribution to achieving objectives of the organization. Therefore, the compensation is needed by any company in order to improve the employee's performances. The form of financial compensation are salary, allowances, and incentives. Whereas for non-financial compensation includes training, authority and responsibility, awards for their performances as well as a supportive work environment.

Another factor that can influence the employee's performance is the leadership style. Increasingly fierce competition causes many organizations to realize the importance of achieving capacity in order to achieve the mission and objectives. To face competition, companies are required to improve the employee's performance. Leadership is an important factor in providing direction to employees. Martoyo (1990) says that leadership is the whole activity in order to influence people to be willing to work together to achieve a goal that is desired together.

Bass et al. (2003) and Locander et al. (2002), find important factors that determine employee performance and organizational capability in adapting to environmental changes is leadership. Leadership describes the

relationship between the leader and the followers and what the leader's goals (Locander et al., 2002; Yammarino et al., 1993). The concept of rapidly growing leadership is the concept of transactional and transformational leadership popularized by Bass in 1985 (Locander et al., 2002). Both leadership concepts are based on the style, the behavior and situations. While the transformational leadership is based on the principle of developing subordinates (follower development) (Rafferty and Griffin, 2004).

Yogyakarta Special Region (DIY) is one of the areas in Indonesia which is famous for having many places of tourism. Therefore, many foreign and local tourists like to visit this area. This causes the emergence of business competition in various areas of business both service and non-service. One of the obvious business competition is the hospitality business. The following data growth of tourist visits to the Special Region of Yogyakarta in 2011-2015:

Table 1.1 Growth of tourists visiting DIY year 2011-2015

Year	Foreign Tourists	Growth (%)	Local Tourists	Growth (%)	Foreign and Local Tourists	Growth (%)
2011	169,565	9.57	1,438,129	1.37	1,607,694	2.17
2012	197,751	16.62	2,162,422	50.36	2,360,173	46.80
2013	235,893	19.29	2,602,074	20.33	2,837,967	20.24
2014	254,213	7.77	3,091,967	18.83	3,346,180	17.91
2015	308,485	21.35	3,813,720	23.34	4,122,205	23.19

Source: Yogyakarta Tourism Statistics 2015

The increasing number of tourists visiting has a great impact on the development of hospitality business in DIY. When Hospitality business

increases and develops the competition among hotel entrepreneurs becomes tighter. The number of hotels that continue to grow make the number of guests staying or Length of Stay (LOS) hotel in DIY decrease. Here is the data of long-stay developments of tourists in DIY year 2011-2015:

Table 1.2 Growth Length of Stay of tourists in DIY year 2011-2015

No	Accommodation	Year									
		2011		2012		2013		2014		2015	
		FT	LT	FT	LT	FT	LT	FT	LT	FT	LT
1	Non Star Hotel	1.82	1.74	1.71	1.59	1.73	1.56	1.74	1.56	1.79	1.60
2	Star Hotel	2.02	1.71	1.84	1.53	1.95	1.65	2.01	1.62	1.99	1.66

Source: Yogyakarta Tourism Statistics 2015

Note : FT (Foreign Tourists) LT (Local Tourists)

Recorded increase of foreign tourists who visited Yogyakarta amounted to 41.89% during January to July 2016 compared to visits during 2015 (*Tribun Jogja*). The high foreign tourists who come to the city of Yogyakarta make hotels in Yogyakarta a choice of a temporary residence. Therefore, the competition between hotels to provide good service to its customers is the right strategy to attract tourists who come.

Competition between hotels in Yogyakarta is shown by the quality of services offered from every hotel management from hotel facilities, the state of the room, the price of room rental and the form service given. The increasing number of hotels in DIY cause higher competition level. Various

ways done by hotel management to improve the productivity of the company, ranging from price warfare to push prices as low as possible compared with other hotel companies, as well as the quality of services offered from every hotel management to provide facilities and various exciting programs aimed at attract consumers.

Employee performance is important and needs to be taken seriously by the hotel management in improving the productivity of the hotel. Employee performance has an influence on hotel productivity. In practice, many hospitality companies are less able to compete with other hospitality companies because of the low employee performance.

Company requires employees to work well in accordance with the rules and targets set by the company. However, company pay less attention to aspects affecting employee performance such as employee satisfaction level, leadership style and compensation. Lack of management attention to these aspects leads to a lack of employee performance and consequently the overall performance of the company will decrease.

Previous research conducted by Pasuma (2013) find that the provision of compensation has a positive effect on employee performance. Pasuma (2013) conducted a research about the effect of competency, compensation, and leadership to the employee performance. It was conduct at Ratumbuysang Hospital in Manado. This research used asosiative method with multiple regression as the analysis technique. This research is in line with other research conducted by Hameed et al. (2014) and Aktar et al. (2012). Aktar et

al. (2012), says that rewards can influence employee performance. On the other hand, there is research that results contrary to the above studies, it is research conducted by Handayani (2013). Handayani (2013) finds that compensation has no significant effect on employee performance. Other research that support this statement is research conducted by Widyarto (2012). Based on those inconsistent results, the writer is about to conduct a research about the effect of compensation on employee performances, especially financial compensation.

According to some research has been done before, it use different research object. Research conducted by Pasuma (2013) used Ratumbuysang Hospital in Manado as his research object. Hameed et al. (2014) and Aktar et al. (2012) conducted research with Banking sector as research object. Handayani (2013) and Widyarto (2012) used manufacture company as their research object. Through this research, the writer tries to figure out about the influence of financial compesation and leadeship style on employee performance that exist in Hotel scope in Yogyakarta. The results of this study are expected to be used as means of assistances by managers in decision making.

The high performance of an employee is determined by the provision of financial compensation that causes an employee to develop his/her work ability based on the provision of financial compensation in triggering the employee performance improvement. It is supported by research conducted Kende et al. (2016). It was find that financial compensation and

transformational leadership have significant effect on the employee performance. On the other hand, the different leadership styles that exist in various companies encourage researchers to do research entitled: **The Effect of Financial Compensation and Leadership Style on Employee Performances.**

B. Research Question

Based on the background that has been described, then the formulation of this research problem are:

1. Does the financial compensation consisting of salary, allowances and incentives affect the employee performance?
2. Among the provision of financial compensation, which dominant effect on the employee performance?
3. Does the transformational leadership style affect the employee performance?

C. Objectives of the Study

The objectives of the study, as follows:

1. To know and analyze the effect of providing financial compensation consisting of salary, allowances and incentives on the employee performance.
2. To know and analyze among the provision of financial compensation, the dominant effect on employee performance.
3. To know and analyze the effect of transformational leadership style on the employee performance.

D. Significance of the Study

This research is expected to provide benefits that are:

1. For company as a policy maker in providing financial compensation and transformational leadership styles that affects the employee performance.
2. For the development of science, the results of this study are expected to enrich the development of theories of human resource management, as well as a contribution of thought for other studies who want to examine further and deeper things that have not been revealed in this study.
3. For researchers, it is useful to understand the importance of financial compensation and transformational leadership style for performance improvement.