Improving Employee Retention using Path Analysis At E-Commerce Company in Indonesia

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Abstract: To keep best talent to stay in the organization, managing human capital is an important part to compete with competitors through its people. The purpose of this study was to determine the influence of training and development, compensation, and performance appraisal toward turnover intention through organizational commitment so that employee retention improvement can be suggested. Methods of data collection used in this study is through questionnaires distributed to 117 office employees. Data analysis method used in this research is path analysis. The result of this study showed that training and development, compensation, performance appraisal, and organizational commitment have significant influence toward turnover intention simultaneously and individually. The way to improve employee retention recommendation are discussed.

Keywords : Training Development, Compensation, Performance Appraisal, Organizational Commitment, Turnover Intention

I. INTRODUCTION

Today's business competition is getting more competitive. Numerous companies are trying to produce valuable products and services to its customers. Companies should be able to predict and satisfy its customer requirements and expectation in a timely manner. People inside the companies are the one who give ideas and execute the decision. Therefore, it is important for company to keep its best people to stay in and fully committed to the organization.

One of the strategies to cope with other competitors is through people [1]. The idea of competing through people means the ability of company to achieve its success by managing its human capital. Human Resource Management is the process to acquire, train, appraise, and compensate employees, and other labor issues such as labor relations, health and safety, and fairness concerns [2]. Each person has talents, skills, knowledge and experiences that would be lost if an employee moves to other companies. In that case, it is costly to replace with new employee because when someone leaves a job, the productivity will decrease, and company will also have lost all the investments, from the cost of hiring, training and development, and so on. Moreover, this issue will increase company's turnover rate that will have some negative impact on employee in the company. Therefore, it is desirable that retaining employees is essential to achieve company competitive advantage.

The way to retain employees or increase employees' intention to stay in organization is to decrease employees' turnover intention. In explaining factors contributing to employees' turnover intention, company should consider the organizational commitment each employee has. Enhancing organizational commitment will result in higher retention, increases job motivation and performances [3]. This paper focus is on the problem faced by company on how to retain employees at E-Commerce Company in Indonesia since data shows (Table.1) steady increase in employee turnover from 2012 to 2015. The study is conducted to measure the factors affecting employees' turnover intention through the organizational commitment.

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Table 1. Turnover Rate Data

Year	Turnover Rate
2012	12%
2013	15%
2014	20%
2015	34%

Source: Indonesia-Investment (2016)

II.   LITERATURE REVIEW

Referring to this data on Table 1, the biggest turnover happened in the period of year 2015. The average turnover rate in 28,000 organizations from all industries in the global market is around 16.7% [4].

In this study, turnover intention is used instead of actual turnover because there is no information available about employees who already left. Turnover intention has a direct relation with actual turnover[5]. In addition, turnover intention is also the best predictor of turnover [6]. In a preliminary survey, there are 38 out of 69 respondents who said yes that they had ever think to quit from their job at E-Commerce Company in Indonesia and the remaining said that they never think to quit from their job at E-Commerce Company in Indonesia. An employee will be motivated to work if employee is given sufficient guidance through training and development, appraised by effective performance standard and compensated equally based on performance standard [7].

A.   Training and Development

Training as methods used to give employees skills they need to perform in their jobs [2]. Training is deemed by employees to impact on their productivity and has a positive effect over organization's performance [8]. Training produces effects on two things: Job skills enhancement which means giving employees' awareness with new practices to encourage the skills of the workers related to a specific job, and promotion of employees. In a competitive environment, an organization invests not only in technological advancements but also the creation of human capital through extensive training.

B.   Compensation

Compensation is divided into two forms; financial and non-financial [9]. Financial compensation is divided into two parts, directly paid (salaries, wages, commissions and bonuses) and indirectly paid (health benefit, retirement benefit, holiday allowance, housing allowance, education allowance, and else). While non-financial compensation is divided into work related (health company policy, interesting and challenging job, and opportunities for promotion) and environment related (work environment, good working facilities, and holiday quota according to laws). Compensation can be comprised of incentives, rewards, wages, and other benefits given to the employees [10]. In simpler terms, compensation is a decent and fair pay to employees because they have contributed to the achievement of the organization. Compensation as all forms of pay going to employees and arising from their employment [2].

C.   Performance Appraisal

Performance appraisal defined as a process of identifying, evaluating and developing the job performance of employees in organization, so the goals and objectives are more effectively achieved, while also at the same time benefits employees in terms of receiving feedback, recognition, and offering career guidance [11]. Performance appraisal as Human Resource Management tool which is used in determine and communicate employee's performance on assigned job over a period and essentially establish a plan for improvement as well [12].

D.   Organizational Commitment

Organizational commitment was defined as a psychological state that binds an employee to an organization which helps organization to reduce the incidence of turnover [13]. Organizational commitment could be defined as feeling and belief which are formed internally and as a set of intentions that enrich employee's desire to remain in the organization and accept organization's major goals and values [14].

E.   Turnover Intention

According to Oluwafemi (2013) turnover intention is strength of individual's intent toward voluntary withdrawal from organization. In simpler terms, it involves the intention of employees to resign from the organization they work [15]. Although turnover intention is an undesirable outcome for organization, it is important to understand the causes in order be able to minimize the negative impact on organization's effectiveness [16].
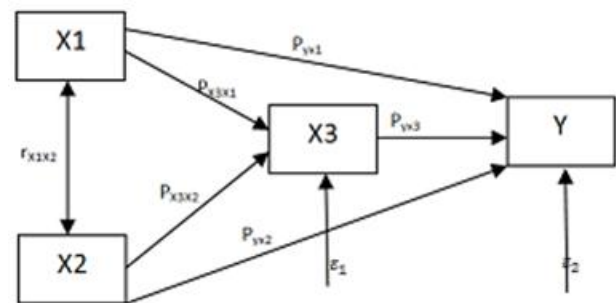

Figure 1. Path Diagram

Path model can be visualized as a diagram which shows the independent, intermediate, and dependent variables. A single-headed arrow indicates the cause for the independent, intermediate and dependent variable. A double-headed arrow indicates the covariance between the two variables. The path model has two types of effects, direct and indirect effects. If the exogenous variable has an arrow directed towards the dependent variable, it is said to be the direct effect. If the exogenous variable influences the dependent variable, through the other exogenous variable, it is said to be an indirect effect. Indirect effect occurs when a variable affects an endogenous variable through its effects on some other variables called as intervening or mediating variable. To determine the total effect of the exogenous variable, direct and indirect effects should be added. One variable may not have a direct effect, but it may have an indirect effect as well [17]. The model used in this research are adopted from Figure 2 with intention to measure the relationship of Training and development (X1), Compensation (X2), and Performance Appraisal (X3) as independent variable towards Turnover Intention (Z) as dependent variable through Organizational commitment (Y) as mediating variable. The theoretical framework of this research is as follows:
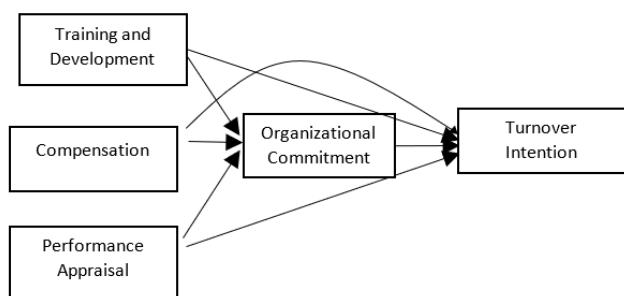
Figure 2. Theoritical Framework

The hypothesis to be tested are:

H1. Does training and development significantly influence organizational commitment?

H2. Does compensation significantly influence organizational commitment?

H3. Does performance appraisal significantly influence organizational commitment?

H4. Does training and development significantly influence turnover intention?

H5. Does compensation significantly influence turnover intention?

H6. Does performance appraisal significantly influence turnover intention?

H7. Does organizational commitment significantly influence turnover intention?

H8. Do training and development, compensation, and performance appraisal significantly influence organizational commitment simultaneously?

H9. Do training and development, compensation, and performance appraisal significantly influence turnover intention through organizational commitment simultaneously?

III. MATERIAL AND METHODS

This research is using associative type which involves two variables between independent variable and dependent variable then observe how often those variables are associated. Method that will be implemented in this research is survey research. Unit of analysis in this research is individual which is employee from different levels and departments. This research uses cross-sectional time horizon. The source is primary data which collected from questionnaire. The data collected is responses from employees regarding to training and development, compensation, performance appraisal, organizational commitment, and turnover intention at E-Commerce Company in Indonesia.

Population and Sampling

In this research, the population are from 165 employees in the head office of PT. Bilna a typical E-Commerce Company in Indonesia. Employees that will be the sample in this research is office employees with number of 165 employees. Probability sampling design that will be used is simple random sampling, using Slovin formula: the number of respondents in this research is 117 employees of PT. Bilna.

Data was collected using questionnaire that distributed to identified sample using Likert scale as measure.

Analysis Methods

The tools we use is a software program called as SPSS

Statistics for Products and Services Solution for Windows Version 20. Here is a few test and data analysis used in this research, there are:

Path analysis

According to (Riduwan & Kuncoro, 2012), path analysis model used to analyze patterns of relationship between variables that aim to find out directly or indirectly influence the set variable X (exogenous) to variable Y (endogenous). Path model can be visualized as a diagram which shows the independent, intermediate, and dependent variables. The path model has two types of effects, direct and indirect effects. When the exogenous variable has an arrow directed towards the dependent variable, then it is said to be the direct effect. When the exogenous variable influences the dependent variable, through the other exogenous variable, it is said to be an indirect effect. To determine the total effect of the exogenous variable, direct and indirect effects should be added. One variable may not have a direct effect, but it may have an indirect effect as well.

To determine the effect of each independent variable categories to dependent variable can be seen in the table below:

Table 2. Interpretation of path coefficients Beta Value

Interval Coefficients	Path	Contribution Level
0.05 – 0.09		Weak
0.10 – 0.29		Moderate
> 0.30		Strong

Source: Sarjono (2011)

Hypothesis testing framework

With confidence level used is 95%, the level of inaccuracies limit of (α) = 5% or 0.05. Basis for decision making can be determined by comparing the value of the probability significance level (sig) with a probability value of 0.05.

- If the probability significance level is greater than or equal to probability value of 0.05 (sig > 0.05), then H0 is accepted and Ha is rejected, which means not significant.

- If the probability significance level is less than probability value of 0.05 (sig < 0.05), then H0 is rejected and Ha accepted, which means significant.

IV. RESULTS AND DISCUSSIONS

Table 3. Result of Regression Analysis

Influence of variables	Path coefficient (Beta)	Sig. value	T-statistic	Result	R square (individually)	Coeff. Determination (R^2)
X1 towards Y	0.197	0.033	2.158	Reject Ho	3.9%	
X2 towards Y	0.397	0.000	4.638	Reject Ho	15.8%	
X3 towards Y	0.515	0.000	6.435	Reject Ho	26.5%	37%
X1 towards Z	-0.240	0.009	-2.652	Reject Ho	5.8%	
X2 towards Z	-0.267	0.004	-2.970	Reject Ho	7.1%	
X3 towards Z	-0.413	0.000	-4.858	Reject Ho	17%	
Y towards Z	-0.662	0.000	-9.472	Reject Ho	43.8%	45.4%

Source: Writers (2017)

Description:

Independent Variables: X1 : Training and Development

X2 : Compensation

X3 : Performance Appraisal

Mediating Variable: Y : Organizational Commitment

Independent Variable Z : Turnover Intention

Table 4. *Result of Path Analysis*

| Variables	Path Coefficient	Causal Influence			Nature of Path Coefficient
		Direct	Indirect through Y	Total	
X1 to Y	0.197	0.197	-	0.197	Moderate
X2 to Y	0.397	0.397	-	0.397	Strong
X3 to Y	0.515	0.515	-	0.515	Strong
X1 to Z	-0.240	-0.240	0.197 x (-0.662) = -	-0.370	Strong
X2 to Z	-0.267	-0.267	0.397 x (-0.662) = -	-0.53	Strong
X3 to Z	-0.413	-0.413	0.515 x (-0.662) = -	-0.754	Strong
Y to Z	-0.662	-0.662		-0.662	Strong
ε1	0.79	0.79	-	0.7	-
ε2	0.74	0.74	-	0.7	-

Source: Writers (2017)
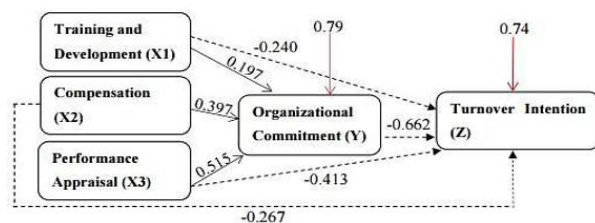
Figure 3. Result of Path Analysis Model
Source: Writers (2017)

Research Implication

According to the result from regression analysis, all the independent variables significantly influence dependent variable based on the significance results which are below 0.05 (alpha) and the t- statistic results which are above 1.66 (t-table). Training and development, compensation, and performance appraisal significantly influence organizational commitment by 37% simultaneously and the remaining of 63% is influenced by other factors. While training and development, compensation, performance appraisal, and organizational commitment significantly influence turnover intention by 45.4% simultaneously and the remaining of 54.6% is influenced by other factors. Thus, organizational commitment should be considered by company because it increases the influence towards turnover intention.

According to result obtained from path analysis, training and development moderately contributes toward organizational commitment directly, while training and development strongly contributes toward turnover intention through organizational commitment indirectly. Compensation strongly contributes toward organizational commitment directly and strongly contributes toward turnover intention through organizational commitment indirectly. Performance appraisal strongly contributes toward organizational commitment directly and strongly contributes toward turnover intention through organizational commitment indirectly. Organizational commitment strongly contributes toward turnover intention directly. In addition, the error of other variables which contributes toward organizational commitment by 0.79 and 0.74 toward turnover intention.

V. CONCLUSION

Based on the analysis of this study, it can be concluded as follows:

1. Based on the result of this research, Training and Development is significantly influence Organizational Commitment at E-Commerce Company in Indonesia, which means by increasing Training and Development will increase Organizational Commitment as well.

2. Based on the result of this research, Training and Development is significantly influence Turnover Intention, which means by increasing Training and Development will decrease Turnover Intention.

3. Based on the result of this research, Compensation is significantly influence Organizational Commitment at E-Commerce Company in Indonesia, which means by increasing Compensation will increase Organizational Commitment as well.

4. Based on the result of this research, Compensation is significantly influence Turnover Intention which means by increasing Compensation will decrease Turnover Intention.

5. Based on the result of this research, Performance Appraisal is significantly influence Organizational Commitment at E-Commerce Company in Indonesia, which means by increasing Performance Appraisal will increase Organizational Commitment as well.

6. Based on the result of this research, Performance Appraisal is significantly influence Turnover Intention at E-Commerce Company in Indonesia, which means by increasing Performance Appraisal will decrease Turnover Intention.

7. Based on the result of this research, Organizational Commitment is significantly influence Turnover Intention at E-Commerce Company in Indonesia, which means by increasing Organizational Commitment will decrease Turnover Intention.

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