How Can the Retention of Indonesian Digital Industry Employees Be Improved? The Mediating Role of Perceived Organizational Support

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Abstract. Wages and benefits in the digital sector have historically been low, and employers are often unable to raise wages due to small profit margins. Employee welfare, on the other hand, must be ensured if employees are to remain loyal to the company and contribute more. This can also be generated with compensation. Existing research has demonstrated that low compensation is a significant factor for a high rate of turnover in the digital industry. Therefore, the present study aimed to investigate two factors: compensation practices and turnover intention. The impact of perceived organizational support in mediating the relationship between compensation practices and turnover intention is also investigated in this study. The questionnaire was gathered from 106 respondents from digital industry employees. This study used non-probability sampling with the simple random sampling technique. Hypothesis were tested using SPSS and Sobel test. The result shows that compensation has no significant impact on turnover intention. However, the researchers found that perceived organizational support could mediate the impact of compensation on turnover intention. The findings of this study serve as a caution to businesses to address these difficulties to improve their overall performance. Companies should engage more in the employees’ welfare to reduce turnover and to retain them, rather than focusing on compensation alone.

1 Introduction

Human resources are the biggest asset and an essential factor in driving the activities of a company or industry (Shrouf et al. 2020). Various techniques and programs that prepare for the effective use of human resources shows that humans are the most valuable resource. Thus, employing organizations need to be conscious about the needs of its employees and continuously maintain and care for competent employees to minimize the risk of turnover intention. Organizations must be cognizant about turnover plans of employees and take proactive measures to control the substantial turnover.

Several main factors that make employees happy in Indonesia, such as colleagues (4.69%); job location (4.59%); company reputation (4.42%); work schedule (4.34%); work culture (4.22%); company value (4.04%) and job security (4.02%) (Jobstreet.com 2017). Meanwhile, the things that make employees unhappy are their direct supervisor (3.92%); basic salary (3.77%); benefits and advantages (3.59%); leadership team (3.59%); training opportunities (3.56%); and career development (3.44%). As for employees aged 21-25 years (or Generation Z), the report shows that the factors that make young employees the most unhappy are salary and benefits.

An industry can face a high incidence of turnover intention if the company ignores the welfare of its personnel. Turnover intention refers to a person's behavior to leave a company. According to Mathis and Jackson (2011), turnover is when employees leave the organization, and the job position must be replaced by someone else. Turnover intention is critical since it can affect productivity, product and service quality, and profitability. High turnover intention can disrupt the operations in the industry and affect them on achieving their target. Therefore, the occurrence of turnover intention can be said to be a loss for the company/industry. The occurrence of turnover intention can also affect the ‘output’ achieved by the company/industry. The turnover rate of digital companies in Indonesia was at 19.22% (Setyowati 2018). In general, this ratio is very high compared to the average turnover rate of other industries, which is at the level of 10%.

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The tech industry in Indonesia is facing similar common challenges in the quality of human resource, facility, law and regulation, capital, and market (Aipassa, 2021). The lack of availability of human resources in the digital industry is a significant reason for the high turnover rate of the digital industry in Indonesia. Indonesia’s number of start-ups has reached 2229 as of 2021, second best in Asia after India (Sekarningrum, 2022). This number makes the generations Z and Y want to work in the digital industry because it is considered a promising opportunity in the long term. In line with this phenomenon, behind the rapid development and promising opportunities, the digital industry is known to have a fast-paced work environment and a high workload. This condition results in high levels of stress and turnover intention in digital companies in Indonesia. Several reasons caused Generation Y and Generation Z employees to leave their jobs, such as dissatisfaction with salary, no opportunity for growth, and lack of learning and development opportunities (Andrea et al. 2016, Fraňiščová and Kirchmayer, 2018, Queiri et al. 2015). Employee retention can be maintained by providing compensation, commitment, perceived organizational support, work environment, and employee job satisfaction.

1.1 Objectives

Even though most studies (e.g., Vizano et al. 2020, Weldeyohannes 2016, Agustininta and Dewi 2020) show that compensation has a significant negative effect on turnover intention, some studies show different results. For example, Queiri et al. (2015) mentioned that compensation does not directly influence turnover intention. On the other hand, Bhatt and Sharma (2019) show a significant positive relationship between compensation and turnover intention. Those different results from previous studies show that research about compensation and turnover intention is less conclusive and can be further explored, which became the motivation to do this research. Drawing on the research gap, our objective is to investigate whether perceived organizational support may mediate the relationship between pay and retention.

2 Literature Review

2.1 Compensation

Compensation refers to a payment given to employees which have two main components; direct payments (commissions, wages, salaries, incentives, and bonuses) and indirect payments (insurance and holidays paid by the company) (Dessler 2015). According to Werther and Davis, adequate compensation has the following objectives: 1) Acquire qualified employees, 2) Retain existing employees, 3) Ensure fairness and equity, 4) Reward behavior, 5) Control costs, and 6) Follow the rule of law. The compensation system in the organization must be following the goals and strategies of the organization. The compensation system must provide adequate rewards for employees for the knowledge, skills, abilities, and performance of employees to become a tool that ensures organizational competitiveness (Mathis and Jackson 2011).

2.2 Perceived Organizational Support

Perceived Organizational Support (POS) is an employee’s perception of an organization whether the organization cares, understands, and values employee welfare or not (Paillé et al. 2010). POS is assumed as a form of employee opinion regarding how far the company cares for the welfare of the employees based on employee perceptions. Based on the organizational support theory (Eisenberger et al. 1986), when employees perceive that they get more support from the organization, they are likely to develop a more positive attitude towards the organization. Organizations could improve perceived organizational support through various human resources practices and policies (Lee and Chui 2019). Assuring employees that their positions are secure, providing important training or developmental programs that promote personal growth, and removing constant work overloads are just a few examples. Therefore, it is expected that POS practices will obligate employees to improve organizational performance and help them achieve organizational goals.

2.3 Turnover

According to Robbins and Judge (2013), turnover intention is a tendency or level where an employee in a company or organization can leave the company or organization either voluntarily or not voluntarily. The reasons that cause turnover intention are the lack of attractiveness of the current job and the availability of other alternative jobs. There is a possibility that employee turnover can negatively affect the organization, such as declining productivity and increasing the cost of new recruitment (Hassan et al. 2020, Setiono et al. 2019). This is in line with Dess and Shaw (2001) that high employee turnover will impact the emergence of costs and losses such as pre-departure costs, recruitment costs, selection costs, orientation and training costs, and productivity losses. According to Mobley (2011), several factors can influence employees to desire to move, such as organizational factors and individual factors. However, employees’ attitudes and behavior before they decide to quit their job are dependent on various control variables (Ngo-Henha 2017). Thus, it makes turnover intention as a decision taken after weighing one’s perception of the contribution of the organization to one’s life.

2.4 Hypothesis Development

Compensation is a part of the human resource management function. Salary and bonus compensation strategies are used in this study. Satisfaction on compensation has been reported to be related to reduce turnover intention because compensation is a form of appreciation given to employees for their contribution. Thus, it can become a motivation for employees to work as best as they can, which will increase their sense of
Compensation impacts the turnover intention of Indonesian digital industry employees

Employees would be obligated to improve the organization’s performance and assist them in achieving the organization’s goals if they used POS (Zin et al. 2012). Several studies showed that many factors affect turnover intention, such as leadership style (Ariyabuddhiphong and Kahn 2017). Employees will increase their impressions that the organization values and cares for their needs and well-being if compensation satisfaction is regarded as supportive and adopted as a voluntary treatment. A study by Mustika et al. (2021) shows that POS mediating the relationship between Compensation and Turnover. Another study by Jolly et al. (2021) also shows that POS has a mediation role between Compensation and Turnover Intention. Therefore, it can be considered that POS mediates the relationship between compensation practices and turnover intention. Thus, this would strengthen employee’s judgment about POS (Eisenberger et al. 1986). Organizational support, such as emotional support, network support, esteem support, material support, informational support, and instrumental support, according to Halif et al. (2020), should be deliberately managed for long-term sustainability and excellent work performance. As a result, it is conceivable to say that POS mediates the compensation-to-turnover intention link. Employees’ opinions of the company caring for their needs and wellbeing will be strengthened when wage and compensation are served as expectations. This tendency was shown in Zin et al. (2012) investigations, which found that POS partially mediates the association between salary and intention to stay. A similar phenomenon happened to research by Gao (2014) that shows that POS also contribute to fully mediate a relationship between Corporate Social Responsibility and employee engagement.

H2: Perceived organizational support mediates the impact of compensation on turnover intention of Indonesian digital industry employees

Based on the discussion of the literature above, a theoretical framework is proposed as in Figure 1. The variables selected are the combination from the three underpinning theories discussed above.

3 Methods

The purpose of this study is to examine how compensation could impact turnover intention and with the mediation of POS on that impact (Figure 1). The data was collected by distributing the questionnaire to employees working in the Indonesian digital-based startup company. There has been a significant increase in the number of startups for digital businesses (Nieborg and Poell 2018). One of the most notable characteristics of these digital-based businesses is that their reach extends well beyond communication and information, and they do it through improving the transportation and hospitality industries (Ardolino et al. 2018). Thus, employees in tech-based companies should serve as an appropriate sample for the purpose of the study. Compensation was measured using Mathis and Jackson (2011), with two indicators: direct compensation, and indirect compensation. POS was measured by adopting the Eisenberger et al. (1986) questionnaire containing four indicators (employee’s performance; appreciation for employees’ hard work; consideration for employees’ goals and opinions; and employee’s welfare). The turnover intention was measured using a study from Mobley et al. (1978), which includes three indicators: thinking of quitting; intention to search for alternatives; intention to quit. All of the survey items are on a 5-point Likert scale, with 1 being strongly disagree and 5 strongly agree (5).

The minimum sample size needed for this research was determined by using the Hair et al. (2018) theory of sample-to-variable ratio of 15:1 or 20:1. Since this research used three variables, the minimum sample size needed for this research is 45 up to 60 respondents. Based on the minimum sample needed, researchers have successfully collected 106 samples for this research. This study used non-probability sampling with the simple random sampling technique.

4 Data Collection

The online questionnaire was distributed using an online approach during November-December 2021 that included giving questionnaires to 106 respondents employed with the digital firms. The respondents for this survey were selected using the convenience sampling method. This sampling method is a non-probability/non-random sampling method in which individuals from the target population who meet specific practical criteria are chosen. The subjects responded to a five-point Likert-type scale for all items. The questionnaire consisted of two main sections that covered the three constructs in the conceptual model in Figure 1: Section A, respondent background (2 characteristics: gender with 54% females
and generations divided into 76% of Gen Z’s and 24% of Gen Y’s) and section B, set of questionnaires (18 items) from the sub-section of Compensation, POS, and Turnover.

5 Results and Discussion

All 106 data gathered from the respondent were calculated for validity and reliability test and hypothesis test. Validity and reliability are calculated using the SPSS software, while Sobel test was used to test the mediating hypothesis.

<table>
<thead>
<tr>
<th>Path</th>
<th>Unstandardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation $\rightarrow$ Turnover</td>
<td>0.162</td>
<td>0.204</td>
<td>0.796</td>
</tr>
<tr>
<td>POS $\rightarrow$ Turnover</td>
<td>-0.345</td>
<td>0.162</td>
<td>$\leq$ 2.129</td>
</tr>
<tr>
<td>Compensation $\rightarrow$ POS</td>
<td>0.823</td>
<td>0.093</td>
<td>8.807</td>
</tr>
</tbody>
</table>

After running the validity and reliability tests, the final step was to assess the significance of the relationships and developed hypotheses by running the test for bootstrapping with 5,000 subsamples that show the path coefficient in Table 2. The original sample is to find out whether the effect of variables is positive or negative. An effect is negative if there is a minus sign in the $\beta$ number. If there is no minus sign, then the effect is positive. The significance of an effect can be seen on $t$-statistic or $p$-value. The two-tailed $t$-value should be $> 1.960$ and the $p$-value $< 0.050$ for a significant path on 5% error rate.

The mediating role of POS towards the impact of Compensation on Turnover can be calculated by finding the $Z$ value using the Sobel Test. According to Sobel (1982), the $Z$ value is necessary to be identified with the statistical significance that can be calculated by the ratio of the indirect effect to its estimated standard error. The $Z$ value of the Sobel Test can be calculated using the formula (Sobel 1982):

$$Z = \frac{ab}{\text{SE}^2}$$

Where:

- $a$ = Regression coefficient for the link between independent variable and the mediator
- $b$ = Regression coefficient for the link between the mediator and the dependent variable
- $\text{SEa}$ = Standard error of the link between independent variable and the mediator
- $\text{SEb}$ = Standard error of the link between the mediator and the dependent variable

Therefore,

$$z = \frac{0.823 \times 0.345}{\sqrt{(0.345^2 \times 0.093^2 + 0.823^2 \times 0.162^2)}} = 2.07$$

To test our $H2$, which states that POS mediates the relationship between Compensation and Turnover, we checked both direct and indirect effects. The direct effect of Compensation on Turnover was significant ($\beta = 0.162/t = 0.796$). After introducing the mediated variable POS in the model, the estimate of Compensation and Turnover was still significant but reduced ($z = 2.07$). It can be concluded that POS partially mediated the relationship between Compensation and Turnover. Hypothesis 2 was therefore supported.
6 Conclusion

The purpose of this study was to look at the direct effect of remuneration practices on turnover intention, as well as the mediating role of POS in this connection, among employees in the Indonesian digital industry. This study has proven that compensation does not directly impact Turnover Intention. In other words, this means that compensation, such as salary, does not directly affect employees’ intention to leave the job. Theoretically, this finding is in line with past research that has shown that income or remuneration does not have a direct impact on the likelihood of quitting. POS were key mechanisms in linking remuneration to turnover intention. One possibility for these results is that the respondents in this research have other priorities when deciding whether to leave the company or not (Vizano et al. 2020). Other studies operationally showed that strategic leadership (Naim and Lenka 2018), social boldness (Albrecht and Marty 2017), and merit-based rewards as an HRM strategy (Cooke and Kim 2017) can retain company’s workforce. In addition, this study also proved that POS does mediate the impact of compensation to turnover intention. One possible explanation for this result is that if the company can provide a compensation that reaches employees’ expectations and needs, it would reinforce their belief that the organization is concerned about their wants and well-being. This finding is supported by several previous studies that stated POS can affect employees’ desire to stay (Eisenberger et al. 1986, Fitria and Linda 2019, Kalidass and Bahron 2015). Previous research has also revealed the essential role of POS in mediating the relationship between numerous variables and turnover intention. Several studies have demonstrated that a lower POS is linked to a stronger turnover intention and a lesser likelihood of quitting. POS were key mechanisms in connecting voluntary turnover among employees (Giao et al. 2020, Kim and Barak 2014). In terms of practical recommendations, we advise the organization’s management to place a greater emphasis on the well-being of its personnel, such as being supportive, providing space to listen to employees’ opinions, and expansion of employees’ opportunities. Hopefully, through examination of these factors, these studies can benefit the digital industry to understand the best approach to retain employees.

The contribution of this study is that it was conducted in an Indonesian digital corporation context. As far as we know, little study has focused on these three variables in this setting. The study’s design has limitations that could influence how these findings are interpreted, i.e., the limitation of the sample and findings from the employees’ perception possibly being biased. We did not inquire about salary levels to check if they were competitive. For future research, more research is needed to investigate the impact of remuneration, turnover intention, and perceived organizational support on various types of businesses.

References


