The Impact of Compensation and Motivation on Turnover Intention of Employees Providing Labor Services in Mining Business License Areas, Mimika Regency, Papua Province

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ABSTRACT
Regulatory changes by the Indonesian government that affect labor service providers in the Mimika region, particularly the transition from fixed-term contracts (PKWT) to permanent contracts (PKWTT), have led to increased wage disparities and employee turnover. This study aims to analyze the impact of compensation and motivation on turnover intention, as well as to understand the factors that influence employee work motivation when facing operational and structural challenges. The methodology used is Structural Equation Modeling (SEM) with Partial Least Squares (PLS) technique using SmartPLS software version 3.2.8. Survey results indicate that the average intention of employees to leave the company is 79.4%. Conversely, employee compensation and motivation are low, with 45.1% and 44.8%, respectively. Hypothesis results show that compensation and motivation significantly reduce turnover, with compensation influencing at -0.542 and motivation at -0.228. This highlights the importance of fair compensation strategies and effective motivation and suggests that companies should enhance both aspects to reduce turnover intentions. This study also provides important managerial insights in addressing ongoing dynamics in the mining sector in Mimika Regency.

KEYWORDS
Compensation, Motivation, Turnover, Turnover Intention

1. Introduction
The economic growth rate of Mimika Regency in 2021 was 36.78%, a significant increase from the 11.49% growth in 2020. According to the official statistics news of 2022, the mining sector contributed the most to the economy of Mimika Regency at 86%, followed by the construction sector at 2.94%. Agriculture, wholesale, and retail trade, as well as motor vehicle and motorcycle repair, accounted for 10.84%. The economy of Mimika Regency remained dominated by the mining sector in 2023 due to the presence of large mining companies serving as mining service providers that influence the economic growth of the region (Janggo, 2023).

The operation of the labor-intensive mining sector is supported by local, national, and international companies that provide both core and non-core mining services to support mining operations and services. Competition in the mining industry is increasing with advancements in technology and global economic trends. This competitive business environment enables mining service providers to adapt quickly and flexibly, necessitating that mining companies innovate in their operations to enhance effectiveness, efficiency, and productivity.
The presence of labor service providers in the mining concession area of Mimika Regency is crucial, especially in supporting the operations of labor service companies. These companies play an essential role in meeting the demand for skilled and experienced labor and act as labor distributors under Ministerial Decree ESDM No. 1827/2018, meeting the strict operational and safety standards of the mining industry. From 2018 to 2023, the labor service sector in the WIUP of Mimika Regency has seen significant growth with contributions from six companies: PT A, PT B, PT C, PT D, PT E, and PT F. These companies are labor service providers and have partnership agreements with labor service companies, and all six are trusted to provide labor according to business needs.

The employment relationship between workers and labor service companies is established through written employment contracts, specifically fixed-term employment agreements (PKWT) and indefinite-term employment agreements (PKWTT). According to the Government Regulation of the Republic of Indonesia No. 35 of 2021, PKWT is an employment agreement between a worker/laborer and an employer to establish an employment relationship for a specified period or a specific position. Employment contracts between workers and employers serve to maintain a stable employment relationship. From 2018 to 2023, there have been significant changes in the contract landscape at human resource service providers, with many transitioning from fixed-term contracts (PKWT) to indefinite-term contracts (PKWTT). This trend in the labor industry is moving towards increased job stability and worker safety.

Over time, the phenomenon of voluntary employee turnover has become a challenge for business units and organizations across various departments and divisions within companies that provide or utilize labor services. This situation is particularly related to the departure of key employees who fulfill crucial roles and perform at high levels. This phenomenon is associated with specific aspects, such as the company’s compliance with applicable labor regulations.

High employee turnover within a company can affect business continuity and decrease productivity, especially since the company must continuously recruit and train new employees to replace those who leave. A better understanding of how to design and implement indefinite-term employment agreements (PKWTT) can help improve labor stability and minimize the negative impacts of losing key high-performing employees. According to Mathis et al. (2017), turnover is the process where employees leave an organization and need to be replaced. Research indicates that many factors can lead to job turnover, including job dissatisfaction, various forms of reduced work motivation, work-life conflicts, and a decline in perceived fairness, prompting individuals to leave their jobs. Other factors, such as the availability of other job opportunities and the unemployment rate, also play a role in employee turnover.

According to Dessler (2020), the main reasons employees leave a company include salary, advancement opportunities, work-life balance, career development, and health benefits. Although the actual turnover rate is not clear, Mathis et al. (2017) suggest that the optimal turnover rate should be less than 10%. The turnover data for employees under indefinite-term employment agreements (PKWTT) at labor service provider companies, gathered from each company from 2018 to 2023, is presented in the table below.

![Figure 1 Turnover Rate of PKWTT Employees at Labor Service Provider Companies, 2018 - 2023 Period](image)

Source: Author’s Processed Data

The data above shows that companies providing labor services experience significantly higher turnover rates. This situation can affect company operations, including potential disruptions and impacts on the operational efficiency of our organization. In this
study, salary or compensation is one of the most important considerations when it comes to turnover issues. This factor influences employee retention and affects turnover within the company. If employees feel that they are not fairly compensated for their contributions and efforts, they may seek other job opportunities with better compensation. Effectively managing and adjusting salaries and compensation can help reduce employee turnover and maintain staff stability in the company.

The compensation system is a key element of human resource management practices that influences intentions to leave (Aburumman et al., 2020). Managers who do not follow the rules increase their intentions to quit and decrease organizational performance (Ahmed Siddiqui, Associate Professor). According to Mustafa & Ali (2019), the level of financial compensation considered appropriate by employees, particularly basic salary increases and annual wages, is a strong indicator of how an organization values and treats its employees, and this can enhance autonomous motivation by reinforcing a sense of belonging. Furthermore, Indiyati & Syawaline found that both monetary and non-monetary rewards to employees positively impact their motivation to work better and more enthusiastically. Employees motivated by substantial salaries and benefits will work hard and enthusiastically to achieve the company’s set goals for a better career.

Previous research, including that conducted by Butt & Nasir (2021), suggests that both financial and non-financial components play an important role in maintaining employee retention. Decision-makers, policy setters, and those in charge of remuneration must consider both forms of compensation to ensure employees remain with the company. According to Abidin & Iqbal (2019), compensation is one of the variables that influence turnover intentions, therefore, policies to maintain direct compensation need attention to reduce turnover rates. Dessler (2020) states that compensation includes all forms of payment earned from employment, encompassing direct financial payments such as wages and bonuses, as well as indirect payments such as insurance benefits and paid leave covered by the employer.

Another important focus of this research is motivation, which is a critical factor in controlling turnover rates in labor service provider companies. Motivation directly affects job satisfaction, commitment to the company, and employee productivity. Without adequate motivation, employees may feel disconnected from the company’s goals, leading to decreased performance and ultimately, the desire to seek other employment opportunities.

According to Robbins & Judge (2017), motivation is defined as the process that explains the level of intensity, direction, and persistence of an individual’s effort in achieving a goal. Motivation, as defined by Robbins & Judge (2017), is the drive to apply high levels of effort towards organizational goals, triggered by the effort’s capability to satisfy some individual needs. In this sense, there are three key elements: effort, goals, and needs. The effort element reflects the measure of intensity. Effort that is focused on organizational goals and consistent with these goals is the desired type of effort, and motivation is the process of fulfilling needs (Busro, 2018).

Based on the background and previous research outlined, the author has identified two variables that contribute to turnover intention, namely compensation and motivation. As a result, the chosen title for the research is “The Impact of Compensation and Motivation on Turnover Intention of Employees Providing Labor Services in the Mining Business License Area, Mimika Regency, Papua Province.”

2. Literature Review

2.1 Compensation

According to Dessler (2020), employee compensation includes all forms of payment received by employees from their work, encompassing direct monetary payments (wages, salaries, incentives, commissions, bonuses) and indirect monetary payments such as benefits like insurance paid by the employer and vacations. Edwin B. Flippo (2007 in Hasibuan, 2021) defines wages as appropriate compensation given to workers in recognition of their contribution to achieving company goals. A similar view is expressed by Thomas H. Stone (1982 in Mujanah, 2019), who defines compensation as the reward given to an employee in exchange for the work performed by that employee. According to Dessler (2020), compensation elements are divided into two main categories: direct financial payments and indirect financial payments.

2.2 Motivation

According to Mathis et al. (2017), motivation is an innate urge in a person to take action. Individuals often act due to various motives, which are frequently related to the goals set for them or by those around them. Therefore, motivation is purposeful and does not arise without reason. Terms like “needs,” “wants,” and “desires” are closely associated with the basic concept of motivation. Understanding the nature of motivation is crucial, especially concerning compensation, employee turnover, and other HR-related issues. Robbins & Judge (2017) define motivation as the process that explains the level of intensity, direction, and persistence of an individual’s efforts to achieve a goal. Motivation is generally associated with various goals, but in this context, the focus is on organizational goals. The two-factor theory, also known as the motivation-hygiene theory, was developed by psychologist Frederick Herzberg. According to Dessler (2020), this theory suggests that there are two groups of factors that influence work motivation: motivators and hygiene factors.
2.3 Turnover Intention
According to Mathis (2019), employee turnover occurs when an employee leaves an organization and needs to be replaced. Many organizations consider this to result in significant costs. Various studies have highlighted the reasons behind employee turnover, including key factors such as job dissatisfaction, low work commitment, conflicts between work needs and personal life, and perceptions of injustice at the workplace. External factors, such as outside job opportunities and unemployment rates, also have a significant impact. When many job opportunities are available, dissatisfied employees are more likely to seek new opportunities. Mobley (2011) proposes that employees tend to have the intention to voluntarily leave their jobs or move from one job to another based on their own decisions. Mobley argues that to measure the intention to leave, there are three factors: 1) thoughts of quitting, 2) the intention to search for another job, and 3) the intention to quit.

3. Methodology
This research aims to analyze the causal relationship between compensation and motivation as independent variables and employee turnover intention as the dependent variable within labor service companies in the Mining Business License Area of Mimika Regency. The population of this study consists of workers from six labor service provider companies in the Mining Business License Area of Mimika Regency, representing various aspects of the mining industry in the area, totaling 1894. For this study, 330 samples were selected using the Slovin formula. Compensation measurement in this research uses the approach formulated by Dessler (2020), involving two types of compensation: direct and indirect compensation. For motivation measurement, the dimensions are based on Herzberg’s Two-Factor Theory, which includes motivator and hygiene factors. Meanwhile, the intention to quit is measured based on the dimensions outlined by Mobley (2011), including thoughts of quitting, the intention to search for alternative employment, and the desire to leave the job.

The data analysis method used in this study is multivariate analysis. Multivariate analysis involves analyzing multiple variables within a relationship or set of relationships (Hair et al., 2014). The specific multivariate analysis used in this research is Structural Equation Modeling with Partial Least Square techniques (SEM-PLS).

4. Results and Discussion
4.1 Evaluation of Measurement Model (Outer Model)
4.1.1 Convergent Validity
When evaluating convergent validity, assessments can be made based on the correlation between component scores (item rankings/component rankings) and the number of contracts, which is the factor loading. According to Chin (1998), as cited by Ghozali (2013), if the correlation loading values are greater than 0.5 and the Average Variance Extracted (AVE) is 0.5, then the correlation is considered to have convergent validity.

<table>
<thead>
<tr>
<th></th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Compensation</td>
<td>0.708</td>
</tr>
<tr>
<td>Indirect Compensation</td>
<td>0.662</td>
</tr>
<tr>
<td>Motivation Factor</td>
<td>0.705</td>
</tr>
<tr>
<td>Hygiene Factor</td>
<td>0.630</td>
</tr>
<tr>
<td>Turnover Intention</td>
<td>0.685</td>
</tr>
</tbody>
</table>

Table 1 Convergent Validity Result
Source: SMARTPLS, 2024

From the table presented, it is evident that the Average Variance Extracted (AVE) values for all variables are greater than 0.5, which is set as the minimum threshold. This indicates that all variables are effective in explaining the latent variables, and the use of manifest variables meets the specified AVE criteria.

4.1.2 Discriminant Validity
Discriminant validity can be assessed by comparing the correlation between the AVE (Average Variance Extracted) and latent variables. A variable is said to have high discriminant validity if the correlation between the main measures (each indicator) and its construct is greater than the correlation between measures of other constructs.
Based on the results from the table above, it is evident that the loading value of each indicator element on the construct is higher than its cross-loading value. From this, it can be concluded that all constructs or latent variables have good discriminant validity, and the construct indicators within one block perform better compared to indicators in other blocks.

### 4.1.3 Reliability Test

According to Sarwono & Narimawati (2015), reliability testing of the SEM-PLS model is applied to assess the measurement model (external model). A latent variable is considered to have adequate reliability if its composite reliability value exceeds 0.6, which can be supported by a Cronbach’s Alpha value greater than 0.7.

<table>
<thead>
<tr>
<th></th>
<th>Cronbach’s Alpha</th>
<th>Composite Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Compensation</td>
<td>0.962</td>
<td>0.967</td>
</tr>
<tr>
<td>Indirect Compensation</td>
<td>0.965</td>
<td>0.969</td>
</tr>
<tr>
<td>Motivation Factor</td>
<td>0.974</td>
<td>0.976</td>
</tr>
<tr>
<td>Hygiene Factor</td>
<td>0.963</td>
<td>0.966</td>
</tr>
<tr>
<td>Turnover Intention</td>
<td>0.948</td>
<td>0.956</td>
</tr>
</tbody>
</table>

The test results show that the Composite Reliability (CR) value for all variables exceeds 0.7 and the Cronbach’s Alpha value exceeds 0.6. These values indicate a very high level of consistency and stability in the equipment used. Therefore, it can be concluded that the reliability of the equipment has been achieved.
4.2 Evaluation of Structural Model (Inner Model)

Figure 1 Inner Model
Source: SMARTPLS, 2024

4.2.1 F2 Effect Size Test

The F2 effect size values from Ghozali PLS (2020) are as follows: ≥ 0.02 indicates a small effect size, ≥ 0.15 indicates a medium effect size, and ≥ 0.35 indicates a large effect size.

<table>
<thead>
<tr>
<th>Impact</th>
<th>Effect Size Value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation → Turnover Intention</td>
<td>0.460</td>
<td>Large effect</td>
</tr>
<tr>
<td>Motivation → Turnover Intention</td>
<td>0.081</td>
<td>Small effect</td>
</tr>
</tbody>
</table>

Table 4 F Square Results
Source: SMARTPLS, 2024

Based on the table above, it can be noted that the Compensation variable has the greatest influence on Turnover Intention, with an effect size value of 0.460.
4.2.2 R-Square Test
The influence of the dependent variable can be measured through the R-square value. Here are the R-square values obtained:

<table>
<thead>
<tr>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Intention</td>
</tr>
</tbody>
</table>

Table 5 R Square Results
Source: SMARTPLS, 2024

From the coefficient of determination (R-square) values shown in the table above, it is evident that the R-square value for the Turnover Intention variable is 0.363. This indicates that 36.3% of the Turnover Intention can be explained by the Compensation and Motivation variables. Meanwhile, the remaining 63.7% can be explained by other variables not included in this study.

4.2.3 Q2 Test
The Q2/blindfolding value in the structural testing with SEM PLS is intended to show the predictive relevance value. The calculation to determine predictive relevance using blindfolding is shown in the following table.

<table>
<thead>
<tr>
<th></th>
<th>SSO</th>
<th>SSE</th>
<th>Q² (= 1 - SSE/SSO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivation Factor</td>
<td>5610.000</td>
<td>1830.834</td>
<td>0.674</td>
</tr>
<tr>
<td>Hygiene Factor</td>
<td>5610.000</td>
<td>2261.812</td>
<td>0.597</td>
</tr>
<tr>
<td>Compensation</td>
<td>9240.000</td>
<td>9240.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Direct Compensation</td>
<td>3960.000</td>
<td>2090.795</td>
<td>0.472</td>
</tr>
<tr>
<td>Indirect Compensation</td>
<td>5280.000</td>
<td>2837.116</td>
<td>0.463</td>
</tr>
<tr>
<td>Motivation</td>
<td>11220.000</td>
<td>11220.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Turnover Intention</td>
<td>3300.000</td>
<td>2510.136</td>
<td>0.239</td>
</tr>
</tbody>
</table>

Table 6 Q2 Result
Source: SMARTPLS, 2024

A qualifying Q square value is greater than 0, and the opposite is also true. Based on the calculations above, it can be seen that the Q2 values for the variables of motivation factor, hygiene, direct compensation, indirect compensation, and turnover intention are all greater than 0, indicating that the model has predictive relevance.

4.2.4 Path Coefficient
The results of the Path Coefficients testing for each variable are shown in the table below:

<table>
<thead>
<tr>
<th>Impact</th>
<th>Path Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation -&gt; Turnover Intention</td>
<td>-0.542</td>
</tr>
<tr>
<td>Motivation -&gt; Turnover Intention</td>
<td>-0.228</td>
</tr>
</tbody>
</table>

Table 7 Path Coefficient Result
Source: SMARTPLS, 2024

4.2.5 Goodness of Fit
Goodness of Fit (GoF) is a tool used to confirm the overall validity of a model. The GoF index is a comprehensive measure that evaluates the performance of the combined measurement model (external model) and structural model (internal model). The GoF index value is calculated by multiplying the average community index by the R-squared of the model. Based on the calculations performed, the obtained GoF value is 0.496, which places this model in the high GoF category.

4.3 The Impact of Compensation on Turnover Intention in Labor Service Provider Companies

| No | Impact                          | Original Sample (O) | T Statistics (|O/STDEV|) | P Values | Description |
|----|--------------------------------|---------------------|----------------|----------|------------|
| 1  | Compensation -> Turnover Intention | -0.542              | 13.958         | 0.000    | Significant |

Table 8 Hypothesis Testing Result
Source: SMART-PLS (2024)
Analysis using SMART PLS indicates a significance level of 5%. The achieved T statistic value is 13.958, which is much larger than the t-table value (1.96), and the achieved P-value is 0.000, less than 0.05. Therefore, the results of hypothesis testing indicate that H0 (null hypothesis) is rejected and H1 (alternative hypothesis) is accepted, meaning that Compensation has a significant influence on Turnover Intention. The Compensation variable shows an original sample value of -0.542 with a negative effect, meaning that better compensation provided will proportionally reduce Turnover Intention by 0.542.

According to (Dwi Agustine & Nawangsari, 2020), compensation has a negative and significant impact on the desire to move jobs. In other words, an increase in compensation could reduce the employee’s desire to resign. This is supported by research (Riyanto & Asriani, 2020) that shows that higher compensation is linked to a decrease in the intention to move jobs. Companies that provide decent compensation will earn greater loyalty from their employees, thereby reducing their tendency to move. In addition, (Sary & Akbar, 2021) also revealed that higher wage standards have a significant negative impact on employees’ desire to move jobs. Increased wage rates reduce the desire to change jobs, stressing the importance of a competitive wage scale to retain employees and reduce turnover.

### 4.4 The Impact of Motivation on Turnover Intention in Labor Service Provider Companies

| No | Impact                          | Original Sample (O) | T Statistics (|O/STDEV|) | P Values | Description  |
|----|--------------------------------|---------------------|-----------------|----------|-------------|
| 1  | Motivation -> Turnover Intention | -0.228              | 4.56            | 0.000    | Significant |

The analysis performed using SMART PLS showed a degree of significance of 5%. The recorded statistical T value is 4.560, higher than the t-table value which is 1.96 and the recorded P-value is 0.000, lower than 0.05. With this result, the third hypothesis results in rejection of H0 and acceptance of H1, which indicates that Motivation has a significant influence on Turnover Intention. The Motivation variable records the original sample value of -0.228 with a negative effect, which means the higher the Motivation, the lower the Turnover Intention of 0.228.

Motivation plays an important role in improving or decreasing employee performance. Employee performance is determined by the level of motivation. When employees are motivated, their performance is better and their turnover is lower (Mohammad et al., 2022). Therefore, motivation is often interpreted as the driving force behind a person’s behavior. As stated (Mangkunegara, 2021), employee motivation is determined by employee attitudes and company working conditions. Employees who are directed or determined to the goals of the organization are motivated by a state of energy called motivation.

### 5. Conclusion

This study tested the impact of Compensation and Motivation on Turnover Intention, so the conclusions can be drawn as follows:

1. Based on the results of descriptive analysis showing the compensation variable is included in the less category.
2. Based on the results of descriptive analysis showing the motivation variable is included in the lower category.
3. Based on the results of the descriptive analysis showing of the variable Turnover Intention belongs in the high category.
4. The results of the analysis showed that Compensation had a significant influence on Turnover Intention in a negative direction, which means that the better the Compensation then the turnover intention will also decrease.
5. The results of the analysis showed that motivation has a significant influence on Turnover Intention in a negative direction, which means that the better the Motivation then the turnover intention will also decrease.

### 5.1 Study Limitation

1. The research was carried out in the Mimika district which has certain characteristics such as the dominance of the mining industry and special demographics. Therefore, the results obtained may not apply to areas with wider industrial variation or with different demographic compositions, such as urban areas with industrial diversity.
2. This research focuses only on compensation and motivation and ignores other important factors that influence turnover intentions, such as job security, perceptions of organizational justice, and relationships between superiors and subordinates. These variables can have a significant influence on the employee’s decision to survive or leave.
3. Quantitative approaches may not be able to reveal the context or understand deeply the reasons behind questionnaire answers. On the contrary, qualitative methods, such as in-depth interviews or case studies, can provide more detailed nuances and contexts that enrich an understanding of turnover dynamics.
5.2 Future Research

1. To enhance the external validity of this research, it is recommended that similar research be carried out in other areas that have different industrial or demographic conditions. This approach will help determine whether findings from the Mimika district can be applied more generally.
2. Add other variables such as job satisfaction and social support to provide a more comprehensive picture of the factors that influence employees’ decision to leave the organization.
3. Using a combination of quantitative and qualitative methods to deepen understanding of turnover intentions, for example, in-depth interviews after surveys can reveal specific reasons behind questionnaire responses and provide richer data for analysis.

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