



## THE EFFECT OF ORGANIZATIONAL INDUCEMENTS ON TURNOVER INTENTIONS: STUDY AT PT XYZ

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### ABSTRACT

*Turnover intention has become a serious factor that needs to be considered in organizational development. The solution to be able to generate Turnover Intention is to create commitment to employees for the organization by providing competitive incentives. This study aims to determine the effect of Organizational Inducements on Turnover Intention mediated by Affective Commitment. This study uses a quantitative approach using questionnaires and the Partial Least Square (PLS) method using SmartPLS3. Respondents in this study were permanent employees of PT XYZ around 100 people. The results is there is a significant and insignificant effect of Organizational Inducements on Turnover Intention. It shows the influence and significance of Affective Commitment as a mediation for PT XYZ employees. These results conclude that Affective Commitment is able to make full mediation of Material Inducements on Turnover Intention and full mediation of Development Inducements on Turnover Intention.*

**Keywords:** *Affective commitment, developmental inducements, material inducements, turnover intention.*

### ABSTRAK

Turnover Intention telah menjadi faktor serius yang perlu diperhatikan dalam perkembangan organisasi. Solusi untuk dapat meminimalkan Turnover Intention adalah dengan menciptakan komitmen karyawan kepada organisasi dengan cara memberikan inducements yang kompetitif. Studi ini bertujuan untuk mengetahui Pengaruh Organizational Inducements terhadap Turnover Intention yang dimediasi oleh Affective Commitment. Penelitian ini menggunakan pendekatan kuantitatif dengan menggunakan kuisioner dan metode Partial Least Square (PLS) dengan menggunakan SmartPLS3. Responden dalam penelitian ini ialah karyawan tetap PT XYZ yang berjumlah 100 orang. Hasil penelitian ini menunjukkan bahwa terdapat pengaruh dan tidak

signifikan Organizational Inducements terhadap Turnover Intention. Selain itu, menunjukkan pengaruh dan signifikan Affective Commitment sebagai mediasi pada karyawan PT XYZ. Hasil ini menyimpulkan bahwa Affective Commitment mampu memediasi penuh pengaruh Material Inducements terhadap Turnover Intention dan mediasi penuh pengaruh Developmental Inducements terhadap Turnover Intention.

**Kata Kunci:** Affective commitment, developmental inducements, material inducements, turnover intention.

## INTRODUCTION

As times progress rapidly, organizations are required to continuously compete to achieve their vision and mission. One of the primary factors contributing to the growth and development of an organization is the quality of its human resources. An organization with superior human resources will be able to lead itself to success within its industry. Therefore, it is crucial for all organizations to pay attention to the growth and development of their human resources. Minor employee turnover within an organization can influence its changes and innovations (Grobler, 2005). If an organization can manage its human resources effectively, it will minimize the risk of deviant employee behavior that could hinder organizational efficiency and effectiveness, such as the intention to leave, which ultimately results in resignation (Yuliasia et al., 2012).

Price (2001) defines turnover as the separation of employees from an organization. Turnover itself is divided into two types (Saeed et al., 2014): voluntary turnover and involuntary turnover. Voluntary turnover occurs when employees leave the organization due to better job offers or dissatisfaction with their current workplace (Veen, 2013). On the other hand, involuntary turnover happens when employees leave the organization due to termination by the organization (Shaw et al., 1998).

Turnover intention refers to the intention to leave the organization in search of a new job (Olawale & Olanrewaju, 2016). A high level of turnover intention among employees can indicate significant issues within the organization's human resources. This issue becomes serious if the employees intending to leave possess specialized skills, high potential, and play a significant role in the company's operations (Ozer & Gunluk, 2010). Despite its negative impact, turnover intention can also have a positive effect. If turnover intention occurs among employees who are not performing optimally, it provides the organization with an opportunity to replace them with employees who have higher skills and motivation (Dalton & Todor, 1982).

Based on surveys conducted, PT XYZ faces a turnover problem, with a turnover rate exceeding 10% in 2020. Ridlo (2012) stated that the maximum acceptable turnover rate for an organization is less than 10%. This high turnover at PT XYZ disrupts productivity, as the organization frequently has to spend more resources, time, and effort than necessary. Therefore, the organization must develop strategies to foster employee commitment and loyalty.

Affective commitment relates to the emotional attachment employees have to identify with and engage in their organization. Evidence suggests that organizations can enhance employee commitment by providing inducements or rewards (Malhotra et al., 2007; Miao et al., 2013; Newman et al., 2011).

Organizational inducements are valuable outcomes received by employees from their organizations as a form of compensation for their contributions to organizational performance. These inducements can be tangibly materialistic or intangibly developmental. Employees who

receive appropriate monetary and non-monetary inducements tend to show stronger identification and involvement with their organization and are more likely to stay (Shaw et al., 2009).

The explanations above provide the rationale for this study, which aims to analyze how PT XYZ can reduce employee turnover intention by providing rewards to foster affective commitment and expand upon previous research. This can be summarized into four objectives:

1. To examine and analyze the effect of material inducements on turnover intention among employees of PT XYZ.
2. To examine and analyze the effect of developmental inducements on turnover intention among employees of PT XYZ.
3. To examine and analyze the effect of material inducements on turnover intention through affective commitment among employees of PT XYZ.
4. To examine and analyze the effect of developmental inducements on turnover intention through affective commitment among employees of PT XYZ.

### **Organizational Inducements**

Organizational inducements consist of material inducements and developmental inducements (Wang et al., 2003). According to Tsui et al. (1997) and Wang et al. (2003), compensation in the form of money and benefits is categorized as Material Inducements. Intangible benefits such as career development, training for future roles, encouragement to participate in organizational decision-making, open communication with upper management, respectful treatment from upper management, and performance feedback are referred to as Developmental Inducements (Hom et al., 2009; Tsui et al., 1997).

### **Organizational Commitment**

Allen and Meyer (1990) classified organizational commitment into three types: emotional attachment (affective), perceived costs (continuance), and obligations (normative).

- **Affective commitment** relates to employees' emotional bonds, identification with, and involvement in the organization.
- **Continuance commitment** is associated with the consideration of costs and benefits within an individual, particularly their willingness to remain employed or resign from the organization.
- **Normative commitment** relates to a sense of obligation to continue working in the organization.

This study focuses solely on affective commitment, as this type of commitment is most closely linked to reducing turnover compared to the other two. While normative and continuance commitment can also influence lower turnover levels, they are less accurate predictors. These two types of commitment tend to result in turnover when better opportunities arise (Boon & Kalshoven, 2014).

### **Turnover Intention**

Turnover intention refers to the tendency or extent to which an employee desires to leave their job and organization (Bluedorn, cited in Grant et al., 2001). Turnover intention can be influenced by various factors such as salary, organizational size, job satisfaction, managerial attitudes, work environment, workload, and external job alternatives (Mobley, 2011).

### **Relationship Between Material Inducements and Turnover Intention**

Material inducements can foster loyalty, and paying wages above the market average helps retain employees (Akerlof & Yellen, 1984). According to Chinyio et al. (2018), employees who perceive material inducements as appropriate are more likely to remain with the organization. A study by Olawale and Olanrewaju (2016) found a significant negative relationship between financial rewards and turnover intention. Therefore, the following hypothesis is proposed:

**H1:** Material inducements have a significant negative effect on turnover intention.

### **Relationship Between Developmental Inducements and Turnover Intention**

Employees are particularly motivated to contribute more to the organization when they receive appropriate training, ultimately helping the organization grow and advance. The reciprocal resources provided by employees, such as work effort, generally manifest as job performance and organizational citizenship behavior (OCB) (Lee et al., 2011), overtime work, loyalty, and ethical behavior (De Vos et al., 2003). Cao et al. (2013) emphasized the importance of offering developmental inducements to retain employees and reduce turnover intention. Therefore, the following hypothesis is proposed:

**H2:** Developmental inducements have a significant negative effect on turnover intention.

### **Relationship Between Organizational Inducements and Turnover Intention via Affective Commitment**

Kumar (2012) stated that when employees feel satisfied with the remuneration provided by the organization, they are likely to increase their loyalty to the organization because they feel valued for their contributions (Hong, 2012). When employees feel satisfied and happy with inducements or rewards such as salaries, benefits, and bonuses, this is expected to foster emotional attachment to the organization, which, in turn, reduces turnover intention. This leads to retaining valuable human resources, who remain assets to the organization, and fostering strong relationships between employees and the organization, thereby achieving organizational goals.

Research conducted by Eisenberger et al. (1990) found that well-managed human resource practices, including career development, can enhance organizational commitment and reduce turnover intention. Additionally, when employees receive inducements they perceive as appropriate, this often fosters a greater sense of identification (affective commitment) and involvement in the organization (Huselid & Day, 1991; Mathieu & Farr, 1991). Ultimately, this enables employees to develop and pursue their career goals (Goulet & Singh, 2002). Therefore, the following hypotheses are proposed:

**H3:** Material inducements have a significant effect on turnover intention via affective commitment.

**H4:** Developmental inducements have a significant effect on turnover intention via affective commitment.

## **RESEARCH METHODS**

This research was conducted at PT XYZ, located in East Java, over two months, from February 1, 2021, to March 31, 2021.

Based on the research objectives and problem formulation, this study adopts a quantitative approach. Questionnaires completed by employees of PT XYZ serve as the primary data source, while secondary data, such as employee turnover records, provide additional insights. The study population comprises permanent employees at PT XYZ. The sampling method employed is proportionate stratified random sampling.

The measurement scale used in this study consists of 28 items rated on a 5-point Likert scale, ranging from “Strongly Disagree” (1) to “Strongly Agree” (5). Data processing is performed using Smart Partial Least Squares 3 (SmartPLS3). The analytical technique used is Partial Least Squares (PLS), a general technique for estimating path models with latent constructs and multiple indicators. The outer model, which assesses the relationship between indicators and their latent variables (Ghozali, 2005), and the inner model, which determines relationships between latent variables (Ghozali, 2009), are used in this study to test hypotheses.

## RESULTS AND DISCUSSION

The research findings indicate that all indicators of the variables—material inducements, developmental inducements, affective commitment, and turnover intention—are valid, as demonstrated by the outer loading coefficients ranging from 0.570 to 0.912. Composite reliability values between 0.822 and 0.909, along with Cronbach's alpha coefficients ranging from 0.701 to 0.890, indicate that all variables used in this study are reliable.

**Tabel 1 R-Square**

Variabel	R-Square
<i>Turnover Intention</i>	0,342
<i>Affective Commitment</i>	0,403

Source: Data analysis using Smart PLS, 2021

Based on the R-Square table presented in Table 1, the coefficient of determination for turnover intention is 34%. This indicates that 34% of the variation in turnover intention can be explained by affective commitment, material inducements, and developmental inducements, while the remaining 66% is explained by other variables outside the analytical model.

The coefficient of determination for affective commitment is 40.3%. This value suggests that 40.3% of the variation in affective commitment can be explained by material inducements and developmental inducements, with the remaining 59.7% accounted for by other variables outside the analytical model.

The model fit in this study uses Q Square Predictive Relevance ( $Q^2$ ), calculated using the following formula:

$$\begin{aligned}
 Q2 &= 1 - (1 - R^2_1) \times (1 - R^2_2) \\
 &= 1 - (1 - 0,342^2) \times (1 - 0,403^2) \\
 &= 1 - (0,883036 \times 0,837591) \\
 &= 1 - 0,73962 \\
 &= 0,26038
 \end{aligned}$$

Based on the Q-square calculation above, the model is said to have a predictive relevance value of 0.26038 or 26%. This value indicates that the analytical model has fairly good predictive relevance.

**Tabel 2 Hubungan Langsung dan Tidak Langsung**

	T Statistics ( IO/STDEV )	Original Sample	Description
<i>Material Inducements -&gt; Turnover Intention</i>	0,885	-0,095	Not Significant
<i>Developmental Inducements -&gt; Turnover Intention</i>	1,138	0,143	Not Significant
<i>Material Inducements -&gt; Affective Commitment -&gt; Turnover Intention</i>	3,030	-0,185	Significant
<i>Developmental Inducements -&gt; Affective Commitment -&gt; Turnover Intention</i>	3,387	-0,254	Significant

Source: Data analysis using Smart PLS, 2021

From Table 2, the following conclusions can be drawn:

1. **Material inducements** have an insignificant effect on turnover intention, as the significance value of 0.885 is less than the critical threshold of 1.64 at a 5% significance level. Additionally, the T-statistics value shows a positive figure. This result indicates

that Hypothesis 1, which states that material inducements have a significant negative effect on turnover intention, is not supported. This finding contradicts the research conducted by Olawale & Olanrewaju (2016).

2. **Developmental inducements** have an insignificant effect on turnover intention, with a significance value of 1.138, which is below the critical threshold of 1.64 at a 5% significance level. Based on this calculation, it can be concluded that Hypothesis 2, which posits that developmental inducements have a significant negative effect on turnover intention, is not supported. This finding contradicts the research conducted by Cao et al. (2013).
3. **Material inducements** have a significant negative effect on turnover intention through affective commitment, with a significance value of 3.030, which is greater than 1.64 at a 5% significance level. From the table above, it can be concluded that Hypothesis 3, which states that material inducements have a significant negative effect on turnover intention through affective commitment, is supported. This result indicates that the affective commitment variable can significantly mediate the relationship between material inducements and turnover intention, and this mediation is classified as full mediation. This finding aligns with the research conducted by Hong (2012).
4. **Developmental inducements** show a significant negative effect on turnover intention through affective commitment, with a significance value of 3.387, which is greater than 1.64 at a 5% significance level. Therefore, this finding supports Hypothesis 4, which posits that developmental inducements have a significant negative effect on turnover intention through affective commitment. This result indicates that the affective commitment variable can significantly mediate the relationship between developmental inducements and turnover intention, and this mediation is classified as full mediation. This finding aligns with the research conducted by Eisenberger et al. (1990).

The insignificant direct relationships mentioned above are due to the mean values of the indicators. The indicator "The organization provides competitive bonuses" from the material inducements variable has the lowest value in the "fairly high" category, which implies that employees are not entirely satisfied with the bonuses provided by PT XYZ. Meanwhile, the highest-scoring indicator from the turnover intention variable is "I often think about quitting," indicating that employees occasionally consider leaving their current organization for a better one, particularly in terms of financial aspects, especially bonuses.

However, this does not necessarily mean that employees will actually leave, as the indicator "I intend to leave the organization" within the turnover intention variable has the lowest mean value, which is influenced by other factors. Although employees are not satisfied with the bonuses provided, their turnover intention remains low. This suggests that the low turnover intention is driven by high levels of commitment. Therefore, organizational inducements cannot directly influence turnover intention.

## CONCLUSIONS

1. Material inducements have an insignificant effect on turnover intention among employees of PT XYZ.
2. Developmental inducements have an insignificant effect on turnover intention among employees of PT XYZ.
3. Affective commitment fully mediates the effect of material inducements on turnover intention among employees of PT XYZ.
4. Affective commitment fully mediates the effect of developmental inducements on turnover intention among employees of PT XYZ.

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