

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the research

Nursing staffs in most medical institutions or private organizations in all corners of the world are probably the most undervalued staff members despite the fact that these are the people who take care of our loved ones around the clock when they are hospitalized. Many of the nurses even take on the responsibilities of the medical supervisors or the doctors in command, and this makes them a very important part of the medical system (International Council for Nurses, 2007; Koonar, 2008). Koonar (2008) further says that in the medical profession, nursing staffs are the one who have variety of jobs to perform and need to juggle with many jobs at many places in the hospital or in medical centers and still are under paid and undervalued.

Compensation becomes one of the most important considerations in Human Resources Management practices. It is not only about reward that give to the employees, but also includes of how it is allocated and sent a message to the employees about what the organizations believe to be important and worth encouraging (Ghazanfar et al, 2011).

By giving the compensation to the employees, organization then expects employees to follow regulations and rules, work according to the standard set for them. Besides the expectation to have fair pay, they also expect a good working condition, fair treatment, secure career, power and involvement in decision. These expectations could be different. Understanding of employee's motivation is required to address these expectations (Beer et al,1984; cited from Khan et al,

2010 ). Meanwhile, an organization need to spend more on compensation to make sure that their employees are motivated enough to give their best performance (Belcher and Atchison, 1987; cited from Ghazanfar, 2011).

Generally, organizational commitment defined as a person attachment to the organization where he works. Organizational commitment is needed by organizations that are competent resource within the organization can be preserved and maintained. According (McNeese-Smith,1996;cited from Nur Cahyani 2007) showed that significant organizational commitment relate positivelly employee performance.

Commitment is a concept of management that puts of human resource as a central figure in the company. Without the commitment of the organization is difficult to expect active participation and depth of human resources. Commitment is not something that can be present for granted, but must be born. Commitment must be maintained in order to continue to grow and exist in the heart of human resources, through appropriate and techniques.

Organizational commitment is loyalty to the organization and mobilization of all employees in the development of its goals, purposes, and infrastructure (Kim et al.,2005;cited from Anvari 2011). There are three kinds of organizational commitment consist of affective commitment, normative commitment and continuance commitment (Aube, Rousseau and Morin,2007;cited from Anvari 2011). Affective commitment describes the emotional attachment and involvement of an individual with an organization, continuance means perceived cost of leaving organization and normative is perceived cost to remain in the organization (Meyer et al,2002;cited from Anvari 2011).

Organizational commitment refers to the relative strength of an individual's identification and involvement in a particular organization (Steers, 1977). In this research consider two organizational commitment components that have received substantial research attention affective and continuance commitment (Glazer et al,2004;cited from Anvari 2011). Affective commitment is the emotional attachment and identification with one's organization (Allen and Meyer, 1990). Continuance commitment refers to commitment based on the employee's attitude towards leaving the organization. In general, an employee with high continuance commitment is less likely to leave the organization because of costs involved with such a move.

Affective commitment shows the level of employee attachment with the organization including beliefs, willingness and desire regarding organizational goal achievements. Affective commitment of employees toward the organization has three different shapes consist of: 1).identification, 2).formation and 3).maintaining. In affective commitment, emotions for the organization form at the beginning stage and then made identification of emotions with the organizational goals and objectives, finally try best to maintain these emotions toward the organization.

Psychological contracts have been shown to be highly significant within this employment context because they help the employee frame the relationship and this serves to guide their behaviour. It should be noted that they are distinguishable from the normative contract (Rousseau 1995) because they reside in the mind of the individual, and can therefore act as double-edged swords because they also offer the potential to engender dispute and disagreement

between parties (Rousseau and Parks 1993). By showing the positive and negative implications of psychological contracts this rapidly growing body of knowledge has been an important aspect in helping managers to understand the employment relationship.

Psychological contract represents the mutual beliefs, perceptions, and informal obligations between an employer and an employee. It sets the dynamics for the relationship and defines the detailed practicality of the work to be done. It is distinguishable from the formal written contract of employment which, for the most part, only identifies mutual duties and responsibilities in a generalized form (Robinson 1994).

Increasing job performance is among the most theoretically and practically important problems in organizational research (Staw,1984). Employee performance is an important building block of an organization and factors which lay the foundation for high performance must be analyzed by the organizations. Performance is a major multidimensional construct aimed to achieve results and has a strong link to strategic goals of an organization (Mwita, 2000;cited from lubis 2008).

Every organization need an compensation system in order to enhance organizational commitment, psychological contract and employee performance. The same thing will be happened in the context of health industry (e.g Hospitals). The current research is purposed to the test the theoretical model which explains relationships among compensation system and psychological contract, compensation system and organizational commitment, psychological contract and organizational commitment and organizational commitment and employee

performance. Object of this study is a nurses who work at Private Hospital in Padang. Analysis is conducted through analyzing the implementation of compensation system by (Thierry, 1987; cited from Herpen et al., 2005) and then research examines impacts of two factors (i.e., compensation system, psychological contract) on organizational commitment and employee performance in the context of Private Hospital. The relationship between of each variable is illustrated in the figure 2.1. Private Hospital choosen is nurses who work Private Hospital in Padang.

## **1.2 Problem Statements**

Therefore the problem can be formulated as follows:

1. To what extent the compensation system affects the psychological contract of nurses who work Private Hospital in Padang?
2. To what extent the compensation system affects the organizational commitment of nurses who work at Private Hospital in Padang?
3. To what extent the psychological contract affects the organizational commitment of nurses who work at Private Hospital in Padang?
4. To what extent the organizational commitment affects employee performance of nurses who work at Private Hospital in Padang?
5. Does the mediating impact of psychological contract between compensation system and organizational commitment of nurses who work at Private Hospital in Padang?

### **1.3 Objectives of Research**

Based on the problem statements above, the objectives of the research are:

1. To exam the effect of compensation system on psychological contract of nurses who work at Private Hospital in Padang.
2. To exam the effect of compensation system on organizational commitment of nurses who work at Private Hospital in Padang
3. To exam the effect of psychological contract on organizational commitment of nurses who work at Private Hospital in Padang.
4. To exam the effect of organizational commitment on employee performance of nurses who work at Private Hospital in Padang.
5. To exam mediating effect of psychological contract in the relationship between compensation system and organizational commitment of nurses who work at Private Hospital in Padang.

### **1.4 Contributions of research**

The results of this research are expected to provide information relevant to organizational commitment and employee performance in the context of Private Hospital, to understand variables of an organizational commitment and employee performance and to strengthen theories or concepts related to factors that influencing organizational commitment, employee performance, compensation system and psychological contract.

It is expected this research provide the data and information for the next research in similar area in the future.

## **1.5 Scope of research**

This research is aimed the effect of compensation system on psychological contract and its impact on organizational commitment and employee performance of nurses who work at Private Hospital in Padang. Variable to analyzing this research is limited to dimension of effective compensation system explained by (Thierry ,1987; cited from Herpen et al.,2005).

## **1.6 Outline of Research**

In order to make it easier and make moderate the forwarding of content, this research is divided into five chapter, they are:

### **CHAPTER I : Introduction**

That is containing about background of the study, problem statement, and objective of research, scope of research and contribution of research

### **CHAPTER II : Literature Review**

Is the chapter that evaluates the containing bibliography about basis for theory. Basis for theory tells us about definition of compensation system, organizational commitment, psychological contract and employee performance, previous research, and correlation between compensation system, organizational commitment, psychological contract and employee performance.

### **CHAPTER III : Research Method**

Explaining about research method which discussing about research design, population and sample, data collecting method, operationalization of variables, data processing, data analysis method and data analysis.

### **CHAPTER IV : Results and Discussion**

Explaining about surveys result that consists of respondent characteristic, frequency of distribution each variable, validity test, reliability test, normality test, fit model, hypothesis testing, and discussion about analysis effect compensation system and organizational commitment on psychological contract and its impact of nurses performance who work at Private Hospital in Padang.

### **CHAPTER V : Conclusion, Limitations, and Recommendations.**

On this chapter will explain about conclusion of research, suggestions of research, limitation of the research, implication of research and recommendation for further research.