

## The Role of Compensation, Job Satisfaction, and Work Environment in Shaping Employee Loyalty

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### Abstrak

This study investigates the impact of compensation, job satisfaction, and the work environment on employee loyalty at CV. Graha Abadi Surabaya, a footwear manufacturing SME in Indonesia. In the broader context of Indonesian small and medium-sized enterprises (SMEs), employee loyalty plays a critical role in ensuring operational continuity and long-term organizational success. Addressing a gap in the literature concerning the integrated influence of these three variables within the SME sector, this research contributes novel insight into workforce dynamics specific to Indonesia's manufacturing industry. A quantitative method was applied using a structured 5-point Likert scale questionnaire distributed to 32 full-time employees, representing the entire workforce of the company. The instruments were validated and tested for reliability prior to analysis. Multiple linear regression was employed via SPSS software, supported by classical assumption tests to ensure model robustness. Results reveal that job satisfaction significantly enhances employee loyalty. In contrast, compensation and work environment, while positively correlated with loyalty, do not individually demonstrate statistically significant effects. However, the combination of all three factors yields a significant joint influence on loyalty levels. The adjusted  $R^2$  value of 0.824 indicates that 82.4% of the variance in employee loyalty can be explained by the model. The findings underline job satisfaction – particularly through aspects such as employee recognition, role clarity, and supportive internal communication – as the primary driver of loyalty. Although compensation and the work environment may not independently exert strong effects, their alignment with job satisfaction contributes to a more stable and loyal workforce. These insights offer practical implications for SME management and HR policy, especially in strengthening retention strategies and enhancing commitment among employees through a holistic approach to workplace satisfaction.

**Keywords:** Compensation; Job Satisfaction; Work Environment; Employee Loyalty; Human Resource Management.

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## PENDAHULUAN

In today's era of globalization and intense market competition, the ability to retain loyal employees has become increasingly vital for organizational sustainability. Employee loyalty is widely recognized as a strategic asset that contributes significantly to workforce stability, operational efficiency, and overall organizational performance (Robbins & Judge, 2021). Employees who demonstrate high levels of

loyalty not only help maintain productivity but also cultivate a positive and cohesive work environment (Allen et al., 2021). Their consistent presence and commitment can reduce turnover rates, enhance individual and team performance, and support the creation of a supportive workplace culture (Noe et al., 2020).

Despite its importance, many companies continue to struggle with issues that undermine employee loyalty. These challenges frequently revolve around three key areas: compensation, job satisfaction, and the work environment. Fair and competitive compensation plays a central role in determining how employees perceive the value of their contributions (Aguinis, 2022). When compensation is perceived as insufficient or inequitable, it can lead to discontent and motivate employees to explore external job opportunities (Tekin & Gökmen, 2022). Similarly, low job satisfaction—often rooted in unclear roles, lack of appreciation, absence of career growth, and disproportionate workloads—can weaken an employee's psychological attachment to the organization (Purnomo, Helmy, & Andri, 2023). Furthermore, an unhealthy or unsupportive work environment, characterized by interpersonal conflict, substandard facilities, or limited managerial support, can erode employee morale and long-term organizational commitment (Ilman, Subiyanto, & Lysander, 2023).

Employee loyalty is influenced not only by material incentives but also by non-monetary factors such as interpersonal trust, perceived organizational justice, opportunities for personal growth, and alignment with the company's vision and values. Psychological contract theory explains that when employers fulfill their promises, employees are more likely to develop affective commitment (Eisenberger, Malone, & Presson, 2020). Social exchange theory also provides a basis for understanding loyalty through reciprocal obligations between employer and employee (Tekin & Gökmen, 2022). Additionally, perceived organizational support has been linked to higher job satisfaction and stronger loyalty across diverse organizational settings (Setyowati, 2025).

CV. Graha Abadi Surabaya, a company engaged in the footwear manufacturing industry, presents an interesting case within this context. Having operated for over six years, the company provides its employees with a compensation structure that includes base salaries, monthly bonuses, and other forms of allowances such as meal subsidies and holiday benefits (Amrozi & Purnomo, 2024). However, the disbursement of salaries is governed by internal policies that may not always align with employee expectations, and the bonuses awarded are contingent on fluctuating sales performance. This creates a sense of uncertainty among employees regarding income stability (Feungarrom & Tantasanee, 2025). In addition, the absence of clearly defined break-time regulations—where employees are often expected to resume work immediately after lunch—may contribute to perceptions of inadequate rest, fatigue, and unfair treatment (Hakim, Siahaan, & Mufid, 2023).

Such organizational dynamics have the potential to influence the degree of employee loyalty within the company. Employees who feel that their contributions are undervalued or insufficiently rewarded may gradually disengage or actively seek alternative employment options (Umamaheswari, Radhika, & Chandrasekar, 2020). Compensation that fails to reflect employees' efforts and the complexity of their roles can breed dissatisfaction, which ultimately jeopardizes long-term retention (Widjanarko et al., 2024). Moreover, the lack of transparency in workplace policies and a poorly structured environment can intensify feelings of neglect and disconnection,

further weakening the psychological contract between employer and employee (Edward, Rumaropen, & Pattinasarany, 2024).

Considering these realities, it becomes essential to explore how these factors—compensation, job satisfaction, and work environment—interact and contribute to shaping employee loyalty. While each factor independently plays a role, it is the combination and balance among them that ultimately determine employees' commitment and willingness to remain in the organization (Permatasari, Ratnasari, & Dwidjosumarno, 2021). An in-depth understanding of their influence can offer actionable insights for management practices and inform targeted human resource strategies (Sjarifudin et al., 2024). Companies like CV. Graha Abadi Surabaya must continuously evaluate the alignment between their internal HR policies and employee expectations to foster a culture of mutual respect and long-term engagement (Prabowo, Dhari, & Violinda, 2025).

This study aims to fill a significant gap in the literature. Most existing studies examine compensation, job satisfaction, and work environment as separate variables, often in the context of large-scale or multinational corporations. There is limited empirical research focused on how these three factors jointly influence employee loyalty in Indonesia's micro to mid-scale manufacturing firms, particularly those involved in export activities like CV. Graha Abadi. The novelty of this research lies in its integrated approach to analyzing the combined effects of these variables on employee loyalty within a localized, real-world setting. Given the labor challenges faced by growing SMEs in Indonesia, understanding these dynamics is urgent and essential for developing effective HR strategies that ensure sustainable organizational growth (Reners, Harahap, & Sugiarti, 2023; Wardana, Salain, & Dwinata, 2024; Adyllon, Nugroho, & Liana, 2024).

## METHODS

This research uses a quantitative method with a survey approach using a questionnaire as a data collection tool. According to Sugiyono (2021), quantitative research is a scientific method based on positivism philosophy, used to examine certain populations or samples using research instruments, and the data is analyzed using statistical techniques.

The population in this study was 32 full-time employees at CV. Graha Abadi Surabaya, and because the population is relatively small, the research used total population sampling, meaning all members of the population became respondents.

The questionnaire used a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree), and the variables measured in this study are: compensation, job satisfaction, work environment, and employee loyalty. The data obtained were analyzed using SPSS version 25, with multiple linear regression analysis. Before testing the hypothesis, the instruments were tested for validity and reliability, and classical assumption tests such as normality, multicollinearity, and heteroscedasticity were also conducted.

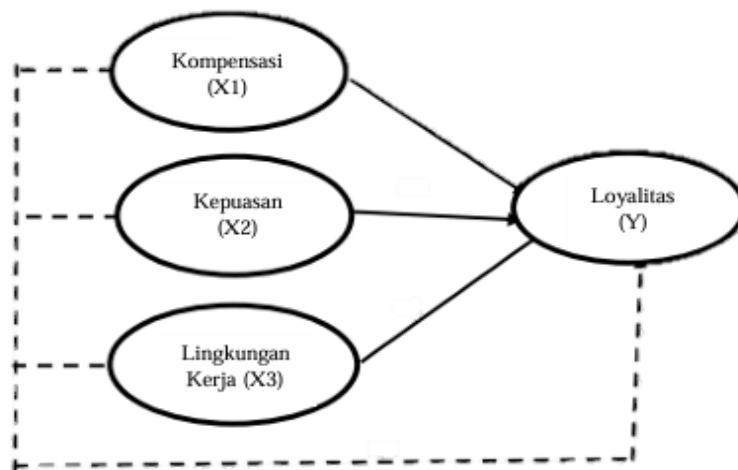


Figure 1. Frame Work

## RESULTS AND DISCUSSIONS

This study was conducted at CV. Graha Abadi Surabaya and aimed to assess how compensation, job satisfaction, and work environment influence employee loyalty. Prior to hypothesis testing, classical assumption tests were performed to ensure the accuracy of the multiple linear regression model.

The validity test confirmed that all 20 questionnaire items – comprising 5 items for each variable: compensation, job satisfaction, work environment, and employee loyalty – had corrected item-total correlation values greater than 0.33, indicating that all items met the validity criteria (Sugiyono, 2021). The reliability test also showed that all variables exceeded the minimum Cronbach's Alpha threshold of 0.60: compensation (0.846), job satisfaction (0.952), work environment (0.885), and employee loyalty (0.920), demonstrating strong internal consistency.

Table 1. Validity and Reliability Results

Variable	Items	Validity ( $r > 0.33$ )	Cronbach's Alpha
Compensation	5	Valid	0,846
Job Satisfaction	5	Valid	0.952
Work Environment	5	Valid	0885
Employee Loyalty	5	Valid	0.920

The Kolmogorov-Smirnov normality test yielded a significance level of 0.057, which is greater than 0.05, indicating that residuals are normally distributed. Multicollinearity diagnostics showed that all predictor variables had tolerance values above 0.10 and VIF values below 10 – compensation (7.256), job satisfaction (4.732), and work environment (3.903) – suggesting no multicollinearity. Additionally, the heteroscedasticity test results were non-significant ( $p$ -values  $> 0.05$ ), confirming homoscedasticity.

Table 2. Classical Assumption Test Results

Test Type	Results	Interpretation
Normality Test	Kolmogorov-Smirnov significance Residuals are normal = 0.057 (> 0.05)	
Multicollinearity	Tolerance > 0.10; VIF values: $X_1 = 7.256$ , $X_2 = 4.732$ , $X_3 = 3.903$ Sig. $X_1 = 0.902$ , $X_2 = 0.279$ , $X_3 = 0.667$ Homoscedasticity (all > 0.05)	
Heteroscedasticity		

The regression model is expressed as:  $Y = 0.475 + 0.274X_1 + 0.480X_2 + 0.234X_3$ , where  $Y$  represents employee loyalty, and  $X_1$ ,  $X_2$ , and  $X_3$  denote compensation, job satisfaction, and work environment respectively.

Among the independent variables, job satisfaction showed the highest standardized coefficient ( $\beta = 0.480$ ) and was the only variable with a statistically significant partial effect ( $t = 3.160$ ,  $p = 0.004 < 0.05$ ). Compensation ( $t = 1.130$ ,  $p = 0.268$ ) and work environment ( $t = 1.458$ ,  $p = 0.156$ ) did not show significant individual effects.

Table 3. Multiple Linear Regression Analysis

Variable	Coefficient ( $\beta$ )	Std. Error	t-Statistic	Significance (p-value)
Constant ( $a$ )	0.475	1.318	0.361	0.721
Compensation ( $X_1$ )	0.274	0.242	1.130	0.268
Job Satisfaction ( $X_2$ )	0.480	0.152	3.160	0.004
Work Environment ( $X_3$ )	0.234	0.161	1.458	0.156
R	0.917	-	-	-
R <sup>2</sup>	0.841	-	-	-
Adjusted R <sup>2</sup>	0.824	-	-	-
F-Statistic	49.289	-	-	< 0.001
Std. Error (Est.)	2.40056	-	-	-

The F-test confirmed that, collectively, compensation, job satisfaction, and work environment significantly affect employee loyalty ( $F = 49.289$ ,  $p < 0.001$ ). The adjusted  $R^2$  of 0.824 indicates that 82.4% of the variance in employee loyalty can be explained by the three independent variables, while the remaining 17.6% may be due to factors not included in the model.

These results indicate that job satisfaction is the most influential factor in building employee loyalty at CV. Graha Abadi, a finding that aligns with prior research such as Winarno et al. (2022), who found that job satisfaction significantly enhances employee retention and engagement. Similarly, Sagala et al. (2022) reported that employee loyalty is more strongly driven by intrinsic factors like job fulfillment rather than solely financial incentives. Thus, it is recommended that management enhance job satisfaction through meaningful work assignments, recognition, and career development opportunities, while still maintaining fair compensation and a conducive work environment to support overall loyalty.

## CONCLUSION

The primary objective of this research was to assess the impact of compensation, job satisfaction, and the work environment on employee loyalty within CV. Graha Abadi Surabaya. The analysis showed that among the three factors examined, job satisfaction emerged as the only variable with a significant and positive influence on employee loyalty when evaluated individually. Although compensation and work environment did not yield significant partial effects, the simultaneous analysis confirmed that all three variables collectively exert a meaningful influence on employee loyalty. The adjusted coefficient of determination ( $R^2$ ) value of 0.824 indicates that these three variables account for 82.4% of the variability observed in employee loyalty levels.

This research adds to the expanding academic discourse surrounding employee loyalty and retention, especially within the context of Indonesia's mid-scale industrial sector. The results provide practical insights and empirical support for human resource theories that emphasize the importance of non-monetary factors, such as emotional and psychological fulfillment, in shaping long-term employee commitment.

From a practical perspective, the research implies that company management should prioritize strategies aimed at enhancing employee satisfaction—such as recognition programs, clear job structures, and opportunities for growth—while maintaining fair compensation and a supportive work environment to foster loyalty and reduce turnover.

However, this study is limited by its scope, as it focuses only on one company and includes a relatively small sample size (32 employees). This restricts the generalizability of the findings to other organizational contexts or industries. Subsequent studies are encouraged to broaden the research scope by incorporating organizations from various industries and geographical regions. Doing so would allow researchers to assess the generalizability and consistency of the current findings across different organizational contexts. Furthermore, future investigations might benefit from examining additional variables—such as corporate culture, managerial leadership approaches, or psychological empowerment—which could offer deeper insights into the dynamics that shape employee loyalty.

## RECOMMENDATIONS

**Prioritizing Job Satisfaction as a Strategic Focus.** Given that job satisfaction has been proven to significantly influence employee loyalty, the management of CV. Graha Abadi Surabaya should focus on enhancing various aspects of job satisfaction. This can be achieved through employee recognition programs, clearly defined job structures, open internal communication, and opportunities for career development.

**Maintaining Compensation and Work Environment in Synergy.** Although compensation and the work environment did not show significant partial effects, their combined influence contributes to employee loyalty. Therefore, the company is advised to maintain a balance between fair compensation and a supportive work environment to maximize their synergistic effect with job satisfaction.

**Developing a Holistic Human Resource Policy** The company's HR department should design policies that not only focus on financial aspects but also address the

psychological and emotional needs of employees. This is essential for building long-term employee engagement and reducing turnover rates. Replicating the Study in Other Companies and Industries. Considering the limitations of the current study – particularly the small sample size and focus on a single company – it is recommended that future research replicate this study in companies with different characteristics (e.g., larger scale, service sector, or different geographical regions) to gain more generalizable and comprehensive findings. Including Additional Variables in Future Research To broaden the understanding of factors influencing employee loyalty, future studies are encouraged to include other variables such as organizational culture, leadership styles, and psychological empowerment. This would provide a more comprehensive view of the dynamics shaping employee loyalty in the workplace.

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