

The Effect of Distributive Justice, Procedural Fairness and Financial Compensation on Employee Loyalty in a Manufacturing Company in Bali

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ABSTRACT

This study aimed to analyze the influence of distributive justice, procedural justice, and financial compensation on employee loyalty in a manufacturing company in Bali. The problem addressed was the impact of perceived fairness and compensation on employee loyalty. A quantitative approach was used, with data collected through questionnaires distributed to 50 employees. The data were analyzed using multiple linear regression. The findings revealed that distributive justice and financial compensation significantly and positively influenced employee loyalty. However, procedural justice did not have a significant individual impact but contributed positively when combined with the other two variables. The results indicated that fair distribution of earnings and adequate financial compensation enhance employee loyalty, while the role of procedural justice is more significant when considered alongside other fairness aspects. These findings suggest that management should prioritize improving distributive justice and financial compensation strategies to foster higher employee loyalty. This study contributes to the literature on human resource management by highlighting the importance of fairness in compensation and decision-making processes. Further research is recommended to explore other variables affecting employee loyalty and to test these findings across different industries.

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1. INTRODUCTION

One of the manufacturing companies in Bali is a construction company located in Buleleng, Indonesia. Established a long time ago, the company has become one of the leaders in the construction industry, specialising in infrastructure development and large-scale commercial projects. The company provides construction services in various fields, such as the construction of low-voltage electricity distribution network installations, telecommunication distribution network installations, the construction of air conditioning (AC), heating and ventilation, as well as indoor water pipes and ducts.

The strengths of one of Bali's manufacturing companies lie in its experienced team of professionals, use of the latest construction technology, and strategic partnerships with suppliers and business partners. Their collaborative and solution-focused approach makes them a top choice in the industry. They prioritise integrity, safety, innovation, and customer satisfaction. Commitment to operating to the highest standards of quality, safety, and environmental sustainability is a key tenet of the company.

The work culture at one of Bali's manufacturing companies is inclusive, where every employee is valued and encouraged to innovate. The government, property developers, and private companies are some of the company's major clients. Positive customer reviews show that they are a reliable construction service provider.

With a commitment to quality, innovation, and superior customer service, one of the manufacturing companies in Bali continues to be a pioneer in the construction industry. They hope to continue contributing to sustainable infrastructure development and providing added value to the people of Indonesia.

In the context of employee loyalty, the company also recognises the importance of fair distribution, fair procedures, and fair financial compensation. Procedural fairness relates to the processes and policies used to make those distribution decisions. Meanwhile, financial compensation includes salaries, bonuses, and other incentives given to employees in return for their contributions. Based on the background of the problem, the problem formulations discussed in this research are as follows: 1) Does distributive justice affect employee loyalty? 2) Does procedural justice affect employee loyalty? (3) Does financial compensation affect employee loyalty?

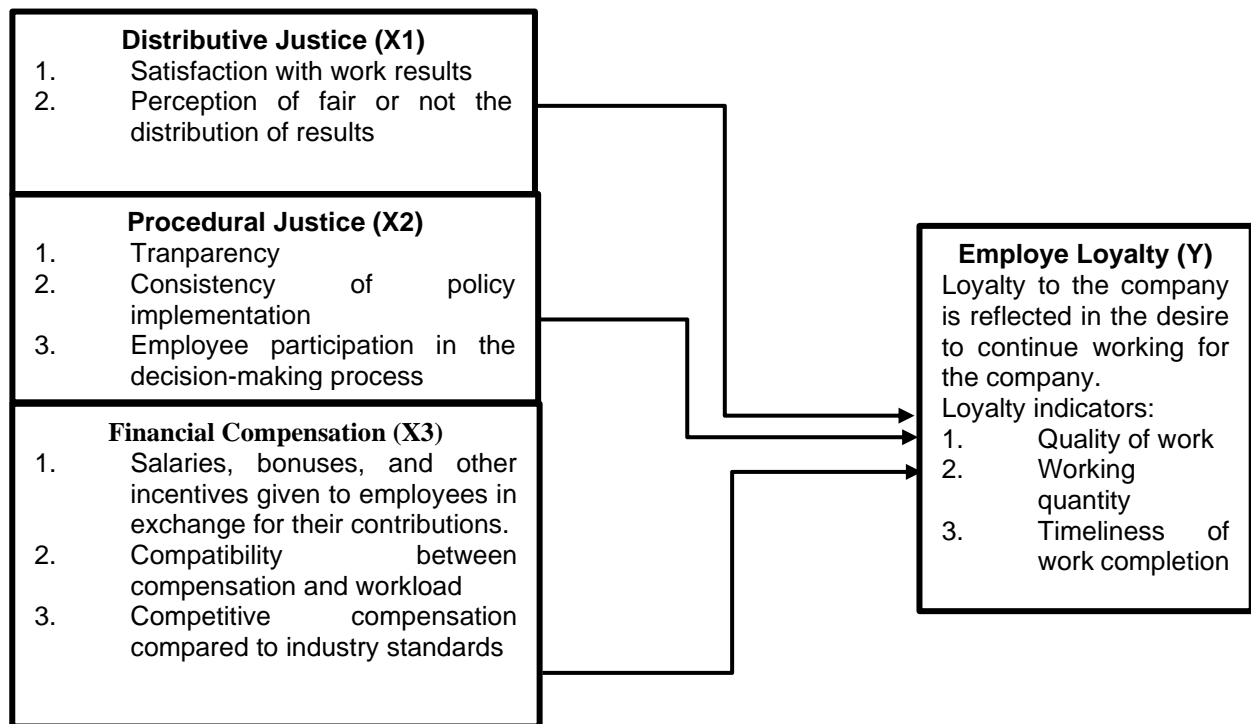


Figure 1. Conceptual Framework

The objectives to be achieved in this study are: (a) To analyse the effect of distributive justice on employee loyalty in a manufacturing company in Bali; (b) To analyse the effect of procedural justice on employee loyalty in a manufacturing company in Bali; (c) To analyse the effect of financial compensation on employee loyalty in a manufacturing company in Bali; (d) To analyse the combined effect of distributive justice, procedural justice, and financial compensation on employee loyalty in a manufacturing company in Bali.

The results of this study are expected to provide two main benefits, namely:

- This research can contribute to scientific insight on human resource management, especially in the context of distributive justice, procedural justice, and financial compensation and their influence on employee loyalty in a manufacturing company. This will contribute to the academic literature on human resource management in the manufacturing industry.

- b) (b) This research can provide considerations to company management, especially regarding how the influence of distributive justice, procedural justice, and financial compensation on employee loyalty. These findings can be used to improve and develop more effective human resource management strategies, so as to increase employee loyalty and ultimately improve company performance and sustainability.

Human Resource Management

Human Resource Management refers to a comprehensive collection of procedures, methods, initiatives, and structures implemented within an organization to ensure efficient utilization and growth of the workforce. These activities include recruitment, training, compensation, formulation of employment-related policies, and development of methods to retain human resources. In many ways, it is considered one of the most important organizational functions. For an organization to operate effectively, it needs the necessary personnel and mechanisms to support it. A closer look reveals that all companies, without exception, are built around efficient, resilient and pioneering HR systems. Human Resource Management has a long historical background as a discipline. Its origins can be traced back to the study of psychology, organizational behavior, and industrial engineering. Over the past two decades, the field has undergone many transformations, resulting in its growing significance within contemporary organizations.

Previously, the field of human resource management (HRM) was referred to as the personnel department. This department was responsible for recruitment and managing administrative tasks related to employment. However, in recent times, the personnel department has undergone a division into HR management and HR development, in response to the ongoing evolution of these functions. In recent times, HR departments often include the terms “people” and “culture” in their terminology to broaden the understanding of HR's impact on the company. The HR department plays a critical role in the success of an organization by providing essential support in the company's strategic planning. This is because many companies rely on their employees to uphold the organization's vision and achieve its mission (Prahendratno, et al, 2023). HRM is an ongoing process that tries to ensure that a company or organization has the right individuals in the right positions at the right time (Hasibuan, 2016) Meanwhile, according to Desseler (2015), HRM includes acquiring, evaluating, and rewarding personnel, as well as overseeing labor relations, health and safety, and legal matters. Likewise, this concept asserts that, to achieve organizational goals, HRM includes the strategic activities of organizing, planning, coordinating, implementing, and supervising the recruitment, development, rewarding, integration, and division of labor (Mangkunegara, 2013)

In brief HRM is an ongoing procedure that aims to ensure that a company or organisation has the right employees at the right time, who support the organisation's vision and mission. The success of HR management greatly affects the performance and sustainability of the company, making it one of the most important functions in the organisation.

Distributive Justice

Distributive justice is a concept related to the distribution of resources and the criteria used to decide how those resources are distributed. It is concerned with how individuals assess their status within the work environment. On the other hand, injustice occurs when there is a mismatch between the amount of work required and the benefits received (Palupi 2013; Palupi & Heru, 2016). Meanwhile, according to Blakely et al., (2005), distributive justice assesses fairness from the perspective that the rewards employees receive from the company should be proportional to the effort they put in. Meanwhile, Margaretha and Santosa (2012) explains that distributive justice refers to the fairness received in the provision of rewards within an organization such as timely payment in the time and amount received and the level of benefits. Distributive justice can also be understood as the perception of balance and fairness between the contributions made by employees and the results received by certain organizations or institutions (Putu et al., 2021).

From these various definitions, it can be concluded that distributive justice is the employee's perception of balance and fairness in the distribution of results and rewards he receives from the company. Distributive justice ensures that employees feel valued according to their contributions, which ultimately increases employee satisfaction and loyalty to the organisation.

Procedural Justice

Procedural justice refers to the administration of justice through the legalization of procedures in accordance with rules, policies, and legislation. Procedural justice is based on the idea that procedures are used to legitimize or authorize an action. This justice includes necessary and applicable rules, laws, and regulations. When distributive justice is effectively applied in a social or organizational setting, such as the workplace, it is believed that the application of procedural justice can help avoid abuse of power (Haryatmoko, 2002). Fair methods should be based on ethical and moral principles. Therefore, even if all the conditions mentioned above are met, if they are not in accordance with ethical and moral principles, then they cannot be considered fair. Procedural justice relates to the fairness obtained through the use of certain procedures in the decision-making process. (Folger & Cropanzo (1998)). According to Greenberg and Baron (2003), procedural justice also refers to the perception of individuals in the organization that the decision-making process must be carried out fairly. They believe that if procedures are carried out fairly, both the organization and employees will benefit. Meanwhile, Pareke (2002) stated that procedural justice is a function of the extent to which procedural rules are followed or violated.

From these various definitions, it can be concluded that procedural justice is the employee's perception of fairness in decision-making procedures in the organisation. Fair and transparent procedures will increase employees' trust in the organisation and ensure that every decision taken is respected and accepted by all parties. This contributes to increased employee satisfaction and loyalty, and strengthens organisational integrity and effectiveness.

Financial Compensation

Labor has contributed its energy and thoughts to the progress of the company in order to achieve the expected goals, and compensation is a reward or reward given by the company (Sastrohadiwiry, 2011). According to Simamora (2006), compensation can be categorized into two main types namely direct compensation and indirect compensation. Direct financial compensation refers to the monetary remuneration a person receives in the form of salaries, wages, and bonuses. Indirect financial compensation, sometimes known as benefits, includes all monetary benefits that are not part of direct remuneration. In addition, there is also non-monetary remuneration, which includes the satisfaction employees derive from their job tasks as well as the psychological atmosphere in which they work. This form of non-monetary remuneration includes the sense of satisfaction derived from performing the substantial tasks associated with the position. Meanwhile, according to Mondy and Noe (2004), direct financial compensation consists of salary that is financial reward paid to employees on a regular basis, such as annually, quarterly, monthly, or weekly. Salary is the most important type of reward in the organization.

From these various definitions, it can be concluded that financial compensation is the financial reward that employees receive from the company, either directly or indirectly, as a reward for their contribution. Providing fair and adequate compensation can increase employee job satisfaction, encourage loyalty, and motivate them to work harder. Good financial compensation also plays an important role in retaining qualified employees and improving the performance and sustainability of the company.

Employee Loyalty

Loyalty is a manifestation of loyalty and dedication demonstrated by an individual through commitment, accountability and exemplary behavior. When performing job duties, employees are inherently bound to loyalty and work attitudes, which ensure that they consistently carry out their responsibilities diligently. According to Reichheld in Sidik (2016: 8), when employee loyalty increases, organizations will be more likely to achieve their goals as set by their owners. Siagian (2014) further described that loyalty is the tendency of employees not to move to other companies, because loyalty affects the comfort of employees in working in a company. Meanwhile, Nitisemito (2011) Loyalty can be defined as the psychological disposition of employees shown by their continued commitment to the organization, regardless of whether the company is experiencing growth or decline. Employee loyalty is influenced by various factors. According to Almasdi (2012), the factors that influence employee loyalty include: 1) Rational factors, which include aspects that can be explained logically, such as salary, bonuses, career paths, and facilities provided by the company; 2) Emotional factors, which are related to feelings or self-expression, such as challenging

work, a supportive work environment, a feeling of security because the company offers long-term employment, charismatic leaders, proud work, appreciation from the company, and work culture; 3) Personality factors, which include the nature, character, and temperament of the employee. When staff have strong emotional connections with their employer as the output of their loyalty, they may stay longer with the company (Wulandari, Ayu, Meidiani, Siddiq, 2024).

From these various definitions, it can be concluded that employee loyalty is the commitment of employees to keep working and contribute optimally to the company. This loyalty is influenced by various factors, including compensation, work environment, and emotional connection with work and the company. High employee loyalty can improve company performance, reduce turnover rates, and create a positive and productive work environment.

2. RESEARCH METHOD

This research uses a quantitative approach, which is a type of research that measures its variables using a statistical research design. In the data collection method, researchers used a questionnaire. According to Sugiyono (2017), distributing questionnaires is a data collection method that is done by giving a set of questions or written statements to respondents to answer. The data obtained was then analysed using SPSS version 29. This study aims to test the hypotheses that have been made, namely investigating how procedural justice, distributive justice, and financial compensation impact employee loyalty in one of the manufacturing companies in Bali.

Validity test

Validity tests are used to measure the validity or validity of instruments. An instrument is said to be valid if the items in the questionnaire can reveal something that will be measured by the questionnaire (Tjahjono, 2015), i.e. measuring the construct or variable that the researcher is studying. The validity test was carried out to measure the accuracy between the instrument used and what was measured by the researcher so that there was a match between the measuring instrument and the aspect measured. In this study, the validity calculation uses SPSS version 29 using Pearson product moment correlation. The decision is that if r counts $> r$ table, then the statement is valid. This validity test uses a significant level of 5%.

Reliability Test

Reliability tests are a tool to measure the reliability or consistency of an instrument. An instrument is said to be good if the respondents' answers to the question items in the questionnaire are consistent or stable over time (Ghozali, 2011). According to Sujarweni (2014), reliability tests can be carried out jointly on all items or question items in the research questionnaire or questionnaire. The basis for decision-making in reliability tests is as follows:

- a. If Cronbach's Alpha value > 0.60 , then the questionnaire or questionnaire is declared reliable or consistent.
- b. If Cronbach's Alpha score < 0.60 , then the questionnaire or questionnaire is declared unreliable or inconsistent.

Multiple Linear Regression Test

Multiple linear regression analysis is used to determine how much influence several independent variables simultaneously have on a single dependent variable. According to Sugiyono (2012), this multiple regression test is used by researchers when they intend to predict the state of dependent variables, when there are two or more independent factors as predictor factors manipulated. In this study, multiple linear regression was used to test the effects of distributive fairness, procedural fairness, and compensation on employee loyalty.

3. RESULTS AND DISCUSSIONS

The following is data on the age characteristics of the respondents which can be seen in table 1. below:

Table 1. Age Characteristics

Age	Frequensi	%
21 – 30 Years	26	52
31 – 40 Years	23	46
> 40 Years	1	2
Total	50	100

Tabel 2. Characteristics of Long Working Period

Duration	Frequensi	%
< 5 Years	31	62
> 5 Years	19	38
Total	50	100

Tabel 3. Validity Test Results

Variabel	Item	rCalculate	rTable	description
Distributive Justice	X1.1	.687	.273	Valid
	X1.2	.722	.273	Valid
	X1.3	.704	.273	Valid
Procedural Justice	X1.4	.821	.273	Valid
	X1.5	.861	.273	Valid
	X2.1	.776	.273	Valid
	X2.2	.805	.273	Valid
	X2.3	.522	.273	Valid
	X2.4	.795	.273	Valid
Compensation Financial	X2.5	.773	.273	Valid
	X2.6	.861	.273	Valid
	X2.7	.837	.273	Valid
	X3.1	.790	.273	Valid
	X3.2	.518	.273	Valid
	X3.3	.477	.273	Valid
	X3.4	.657	.273	Valid
Compensation Financial	X3.5	.779	.273	Valid
	X3.6	.822	.273	Valid
	X3.7	.700	.273	Valid
Employee Loyalty	Y.1	.947	.273	Valid
	Y.2	.808	.273	Valid
	Y.3	.721	.273	Valid
	Y.4	.741	.273	Valid
	Y.5	.752	.273	Valid

From Table 3 above, it can be seen that the calculated r of each indicator is greater than the r table which means that each indicator is valid, so it can be concluded that these indicators can be used to measure the research variables. Validity tests are used to determine the validity or validity of an instrument. An instrument is said to be valid if it measures what it is supposed to measure. The instrument was declared valid with the provisions of calculation > the table and the researcher used a significance level of 0.05. The number of respondents in this study is 50 with a table value of 0.273.

Table 4. Reability Test Result

Variabel	Cronbach Alpha	Alpha	Description
Distributive Justice (X1)	0,815	0,6	Valid
Prosedural Justice (X2)	0,893	0,6	Valid
Financial Compensation (X3)	0,852	0,6	Valid
Employee Loyalty(Y)	0,853	0,6	Valid

From table 6 above, it is known that the value of the cronbach alpha variable for distributive fairness variables is 0.815, procedural fairness is 0.893, financial compensation variables are 0.852 and employee loyalty variables are 0.853, so it can be concluded that all variables are reliable.

Table 5. Multiple Linear Regression Test Result

Variabel	Coefisien	tCalculating	Sig.
Konstanta	- 4,025		
X1	0,508	2.608	0,12
X2	0,012	0,106	0,916
X3	0,250	2.269	0,28
F Calculating	31,580		0,000
R Square	0,673		

Based on Table 7 above, a multiple linear regression equation can be made as follows:

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3$$

$$Y = - 4.025 + 0.508 (X_1) + 0.012 (X_2) + 0.250 (X_3)$$

Based on the above equation, it can be determined that the value of the variable regression coefficient of distributive justice 0.508, procedural justice 0.012 and financial compensation 0.250 has a positive value meaning that if distributive justice, procedural justice and financial compensation increase, then employee loyalty will increase.

Table 6. T Test Result

Variabel	t.	Sig.	Description
X1	2.608	0,012	Signifikan
X2	0,106	0,916	insignificant
X3	2.269	0,028	Signifikan

The test results in Table 8 obtained a significance value of the distributive justice variable (X1) of $0.012 < \alpha (0.05)$, a significance value of the procedural justice variable (X2) of $0.916 < \alpha (0.05)$ and a significance value of the financial compensation variable (X3) of $0.028 < \alpha (0.05)$, meaning that distributive justice and the provision of financial compensation have a significant effect on employee loyalty. However, the procedural justice variable did not have a significant effect.

Tabel 7. F Test Result

F Calculating	Sig.
31.580	0.000

The test results in Table 7 obtained a significance value of $0.000 < \alpha (0.05)$, meaning that distributive fairness, procedural fairness, and financial compensation simultaneously affect employee loyalty.

Table 8. Determination Coefficient Test Results

R	R Square	Adjusted R Square	Std. Error of the Estimate
0,820	0,673	0,652	1.146

The adjusted R square value of 0.652 shows that the variables of distributive fairness, procedural fairness, and financial compensation are able to explain the variation in employee loyalty by 67.3%. While the remaining 32.7% was explained by other variables that were not included in the model.

4. CONCLUSION

This study aims to analyze the impact of distributive justice, procedural justice, and financial compensation on employee loyalty in one of the manufacturing companies in Bali. Based on the results and discussions, it can be concluded that what is expected in the Introduction chapter can be achieved through the outcome and discussion that has been presented. Distribution fairness and financial compensation have been shown to have a significant and positive impact on employee loyalty. This suggests that employees who feel fairly treated in terms of earnings distribution and getting adequate compensation tend to show higher levels of loyalty to the company. Conversely, procedural justice does not show significant influence individually, but when combined with

distributive justice and financial compensation, these three variables together contribute to increased employee loyalty. The findings are in line with previous literature that stated that fairness in various aspects of the organization can increase employment satisfaction and employee loyalty. Therefore, corporate management should focus more on improving distribution fairness and fair financial compensation to maintain and increase employee loyalty. This research provides a strong basis for further development in human resource management, in the context of distributive justice, procedural justice, and financial compensation. Advanced studies may explore the influence of other variables that may play a role in increasing employee loyalty, such as interactive justice and job satisfaction. Furthermore, further research can be done in different types of industries to understand whether these findings are consistent in different organizational contexts. The results of this research can be used by corporate management to develop more effective strategies in human resource management. By understanding the importance of distributive justice and financial compensation, companies can design better policies to increase employee satisfaction and loyalty, which will ultimately contribute to improved company performance and sustainability. The research also opens up opportunities for further research to test a more comprehensive model of justice and its impact on various other organizational aspects, thereby making wider contributions to the human resource management literature.

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