
THE EFFECT OF COMPENSATION AND LEADERSHIP STYLE ON EMPLOYEE MOTIVATION AND PERFORMANCE

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Abstract

The purpose of this study was to analyze the effect of compensation and leadership style on employee performance, both directly and indirectly through work motivation. The sample was determined as many as 200 civil servants with a multi-stage techniquerandom sampling. Data were analyzed using the Structural Equatine Modeling (SEM) approach. The results of the analysis show that compensation and leadership style have a positive and significant effect on employee performance, both directly and indirectly through work motivation. Work motivation mediates compensation and leadership style in predicting employee performance.

Keywords: *Compensation, Leadership Style, Motivation, Performance.*

INTRODUCTION (Capital, 12 pts, bold)

One of the ideals of bureaucratic reform is the improvement and improvement of public service performance. This ideal will only be realized when public service tasks are carried out by PNS those who are performing well. On the other hand, performance PNS in Indonesia has not been optimal (Dwiyanto, et al, 2002). The same thing happened in the province of East Nusa Tenggara (Laan, 2016).

Employee performance is a matter important for both the organization and individual employees. Organizations need high performing people in carrying out service tasks to achieve stated vision, mission and goals. For individuals, performing and completing tasks at a high level can be a source of satisfaction, motivation, and pride. Working with low performance, may be unsatisfactory or maybe as an indication of failure personal. Although maybe there is exception, high performance easier to promote in an organization and generally have a career opportunity better than low performers.

Many factors influence employee performance, including compensation, leadership style and work motivation (Fombrun, 1983; Kilmann, 1996). Compensation for every organization is important. In a bureaucratic organization, every civil servant has the right to a fair and decent salary in accordance with the workload and responsibilities, and the salary received must be able to spur productivity and guarantee their welfare. In reality, it is felt that the payroll system

applied to employees does not spur work performance and productivity, because the amount does not meet the needs of a decent life and the structure and method of determining salary are not linked to competence, work performance and position weight of each employee (Kadarsiman, 2012).

Leadership is another urgent factor. There is an expectation that after reform, the bureaucracy should have leadership that is able to increase subordinates' awareness of values, business results, the importance of completing tasks, the meaning of work, work moral goals, and pay attention to the needs of employees through their authority and influence to jointly achieve organizational goals.

Besides compensation and leadership is motivation. Motivation is a set of attitudes and values that influence individuals to achieve specific things according to individual goals (Pinder, 1998). These attitudes and values are *invisible* things that give strength to encourage individuals to behave in achieving goals. If individuals are motivated, they will make positive choices to do something, because it can satisfy their desires and vice versa (Rivai, Sagala, 2009).

This study will examine these three factors on the performance of public service employees, both directly and indirectly.

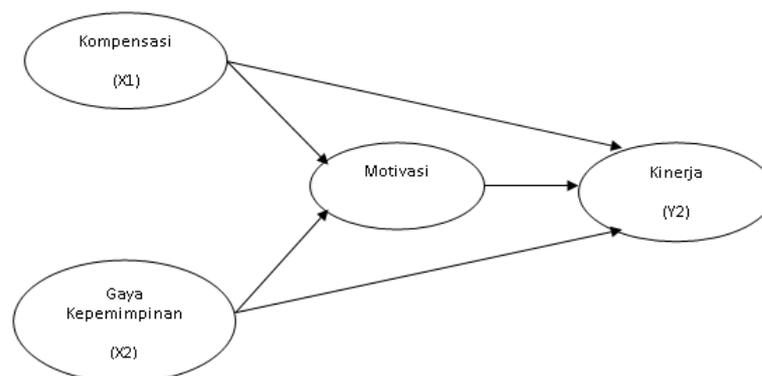


Figure 1. Conceptual Framework

METHOD (Capital, 12 pts, bold)

This research was conducted on all Civil Servants (PNS) who carry out public service duties in the province of East Nusa Tenggara. The research sample was determined using a *multi-stage random sapling technique* (Sigit, 2003).

First, district/city sampling, where at this stage 1 city and 2 regencies were randomly assigned to each City of Kupang, Kupang Regency and Alor Regency with the following considerations: (1) The three districts/cities have relatively varied intensity of public services. Kupang City as the provincial capital of NTT has a relatively high intensity of public services compared to the other two districts; (2) Geographically, Kupang district can represent regencies which are on the same land as Kupang City, while Alor district represents regencies which are not located on the same land as Kupang City.

Second, SKPD sampling. At this stage, the SKPDs in the sample districts/cities were determined randomly. The number of SKPD is 15 with details

per district/city as shown in table 1. All employees in the sample SKPD are the target population.

Third , employee sampling where at this stage a random sample of civil servants is assigned to the sample SKPD, with the following criteria: minimum one year working period, having a minimum class/rank class of II, and functioning to carry out public service tasks in two strata positions , namely: (1) the person in charge, namely the employee who occupies the position of leader/deputy leader, the head of the section/head of the field who in carrying out their duties acts as the person in charge of implementing public services in their work unit; (2) Executors, namely executive employees/staff whose function is to directly handle public service tasks.

The number of samples was determined by referring to the view of Hair, et al (2006) that the appropriate sample size is between 100-200 samples for the *Maximum Likelihood* (ML) technique. Considering that the estimation technique used was ML, the number of samples considered in the study was 200 civil servants.

RESULTS AND DISCUSSION (Capital, 12 pts, bold)

Table 1. Instruments Reliability Test Results

	Constructs/Variables/indicators	Cronbach Alpha
Exogenous	Compensation : Salary, Benefits, Work Facilities, Awards, Recognition	0.846
	Leadership Style: reward , Active control, Passive control, Ideal influence, Inspirational motivation , Intellectual stimulation , Individual consideration .	0.894
endogenous	Work motivation : Working conditions, organizational policies, dynamics of teamwork, progress at work	0.828
	Employee Performance: Productivity/quantity of work, Quality of work , Punctuality , Knowledge of work , Skills of work , Ability to organize work , Teamwork , Communication , Initiative , Creativity	0.779

In this section, two types of tests are carried out: structural model fit tests (*overall model fit*) and structural parameter estimates (*structural parameter estimates*), namely *causal relationships* between constructs or independent-dependent variables in *the structural model* . The suitability of the structural model was evaluated using eight suitability indices with the acceptance limits for each index as shown in table 2.

Table 2. The results of the suitability test for the structural model of the compensation variable, leadership style, work motivation and employee performance.

conformity index	Acceptance limit	Computation results	Ket
Chi Square	Expected small	1816,342	Not good
Probability	≥ 0.05	0.000	Not good
CMIN/DF	≤ 2.00	3,548	marginal
GFI	≥ 0.90	0.879	marginal
AGFI	≥ 0.90	0.937	Good
TLI	≥ 0.95	0.951	Good
CFI	≥ 0.95	0.923	marginal
RMSEA	≤ 0.08	0.082	Good

Two indices, each chi-square and probability are categorized as unfavorable, because they have numbers that are outside the acceptance limits. CMIN/DF, GFI, and CFI are three indices that are categorized as marginal because their numbers do not differ much from the acceptance threshold. Meanwhile, the AGFI, TLI, and RMSEA indices are in good category, because they are within the acceptance limit. Thus overall, the model can be said to be in accordance with the data. This is in accordance with the recommendation of Jaccard and Wan (1996) that the suitability of a model is at least determined by three criteria.

Furthermore, the analysis of the relationship between constructs in the structural model can be seen in table 3.

Table 3. Causal relationship between compensation variables, leadership style, work motivation and employee performance

Variable	Estimated coefficient	SE	CR	P	Ket
Work motivation ← Compensation	0.518	0.212	2,451	0.014	Sig
Work motivation ← Leadership Style	0.256	0.110	2,331	0.020	Sig
Employee Performance ← Compensation	0.245	0.114	2,159	0.014	Sig
Employee Performance ← Leadership Style	0.123	0.059	2,078	0.038	Sig
Employee Performance ← Work motivation	0.140	0.049	2,840	0.005	Sig

Of the five causal relationships, all of them have CR values and P values according to the specified criteria (CR values ≥ 1.96 and p values ≤ 0.05). Thus it can be said that the relationship between compensation constructs and leadership style with work motivation, compensation and leadership style with employee performance, and work motivation with employee performance is significant. Thus the hypothesis that compensation has a significant effect on employee performance either directly or indirectly through work motivation is accepted. Likewise the

hypothesis which states that leadership style has a significant effect both directly and indirectly on employee performance through work motivation.

In addition to the direct relationship, the indirect relationship has also been analyzed as shown in table 4.

Table 4. Indirect Influence Parameter Estimation Results

Influence Relations		Mark
Motivational → Compensation → Performance		0.073
Performance → Motivation → Leadership Style		0.036

Table 4 shows that the indirect effect of compensation on employee performance through work motivation is 0.073. This indicates that compensation can improve employee performance through improving work motivation of 0.073. While the indirect effect of leadership style on employee performance through work motivation is 0.036, which means that leadership style can improve performance through work motivation of 0.036.

The results of the influence analysis through testing the structural model show that compensation has a positive and significant effect on work motivation. This implies that compensation is one of the factors that play an important role in determining the level of work motivation of an employee. The higher the compensation received, the higher the motivation of an employee to work. Conversely, if the compensation is lower, work motivation will also decrease. This finding is empirically in line with the views of Igalens and Rousel (1999) that compensation is positively related to motivation and job satisfaction.

Besides influencing motivation, the results of the analysis also show that compensation has a positive and significant effect on employee performance. This shows that compensation is one of the important factors that determine the level of employee performance. The results of this analysis are in line with the empirical findings of Jamil and Raja (2011) which essentially conclude that compensation and performance evaluation have a positive and significant correlation with employee performance.

Besides having a direct effect, compensation also affects employee performance through work motivation. As the analysis above, it appears that compensation can increase employee performance through work motivation of 0.073. These results are theoretically in line with the views of Gupta & Shaw (1998) and Ferin & Dirk (2003) that an appropriately designed salary system can have a positive impact on individual, team and organizational performance. The impact is not only direct, but also through job satisfaction and work motivation.

Leadership style has a positive and significant effect on work motivation. This implies that the more effective the leadership style applied will increase work motivation, otherwise if it is not effective it will reduce work motivation. Empirically these findings are consistent with the findings of Webb (2007) who concluded that the effect of transformational leadership on work motivation is greater than transactional leadership on work motivation.

In addition to work motivation, leadership style also has a positive and significant effect on employee performance. This gives the meaning that an

effective leadership style determines the high or low performance of employees. These findings are in line with the findings of Pradeep and Prabhu (2011) who found that transformational, transactional and laissez-faire leadership styles have a correlation with employee performance, only the correlation between transactional leadership styles and performance is lower than transformational. Meanwhile, the laissez-faire leadership style has a negative relationship with performance.

Leadership style besides having a direct effect, also indirectly on employee performance. The results of the analysis show that leadership style can improve employee performance through work motivation of 0.036. The results of this finding are in line with the findings of Awan, et al (2012) that employee motivation plays a full role as a mediation between servant leadership and employee performance.

Work motivation according to the results of the analysis shows a positive and significant effect on employee performance. This shows that the higher the motivation, the higher the employee performance and vice versa. The results of this analysis are supported by the findings of Nawab, et al (2011) that motivation is positively related to employee performance.

CONCLUSION

From the explanation above, it can be concluded that (1) compensation has a positive and significant effect on employee performance, both directly and indirectly through work motivation; (2) leadership style has a positive and significant effect on employee performance, both directly and indirectly through work motivation. (3) Work motivation mediates compensation and leadership style in predicting employee performance.

Compensation must be maintained and increased so that employee performance in carrying out public service activities can be even more optimal. The compensation in question is fair and proper in accordance with the workload and responsibilities, and the salary received must be able to spur productivity and guarantee their welfare.

Effective leadership style should be highlighted in order to further motivate employees to improve their performance. The intended leadership style is one that is able to increase subordinates' awareness of values, business results, the importance of completing tasks, the meaning of work, work moral goals, and paying attention to the needs of employees through their authority and influence to jointly achieve organizational goals.

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