

The Influence of Transformational Leadership Style, Organizational Culture, and Compensation on Employee Performance with the Work Environment as Mediating Variable

Febryan Muhammad Thariq¹, Cindy Naomi Olivia Br. Silaban², Muhammad Arandi Manurung³, Anita Maharani⁴

Abstract

This study looks at employee performance as a factor for the survival and development of companies in a developing era. This study was expanded to include leadership style, organizational culture, compensation, and work environment to understand factors and how each will affect employee performance. This research collects data using questionnaires that were developed and distributed to 309 respondents through an online platform. As a result, we found that transformational leadership style, organizational culture, and work environment had a statistically significant relationship with employee performance. However, compensation was not found to be significantly correlated with employee performance.

Keywords: *employee; performance; work; environment; performance.*

Introduction

If a company does not regard employees as the most vulnerable and unpredictable asset, it will have a direct impact on the stability and continuity of the company; the company must view employees as dynamic assets that are able to continue to grow for the sake of implementing the company's vision and mission, so it can be stated that good employee performance will also affect company performance (Azhari, 2021).

We put our interest to employee performance. We found in previous research by Sudiardhita et al (2018) that a decline in company's performance was due to, among other things, non-achievement of predetermined company performance, which can be measured by less-than-optimal employee performance. Also, in previous studies, it was also stated that one of the factors that affected the decline in employee performance was compensation.

For organizations, leadership is crucial, particularly in the leadership style displayed. Leadership has long been seen as a crucial component and a management role that may assist in controlling the degree of employee commitment and performance towards organizational goals (Abasilim et al., 2018). The transformational leadership style

¹ Business Management Program, Management Department, BINUS Business School Master Program, Bina Nusantara University, Jakarta, Indonesia, febryan.thariq@binus.ac.id

² Business Management Program, Management Department, BINUS Business School Master Program, Bina Nusantara University, Jakarta, Indonesia, cindy.silaban@binus.ac.id

³ Business Management Program, Management Department, BINUS Business School Master Program, Bina Nusantara University, Jakarta, Indonesia, muhammad.manurung@binus.ac.id

⁴ Business Management Program, Management Department, BINUS Business School Master Program, Bina Nusantara University, Jakarta, Indonesia, anita.maharani@binus.edu

involves inspiring employees to push themselves to go beyond their comfort zone and achieve maximum performance.

A good relationship between leaders and subordinates will become a good organizational culture, which can be a very good influence on a company or organization because there is a mutually supportive commitment between organizational culture and leadership in influencing employee performance (Andriani, 2016). If organizational culture is not carried out and implemented properly in accordance with the principles and goals of the company, it can have an impact on development skills and employee performance that is not optimal (Praditya, 2022).

Furthermore, it has been noted in earlier studies that the workplace environment is a significant factor for employees; this environment includes the working relationships between coworkers, the relationships between subordinates and superiors, and the physical environment where employees work. A conducive work environment will affect productivity and give workers a sense of security (Iis et al., 2022).

Research related to transformational leadership, organizational culture, and compensation on employee performance by mediating the work environment has been done before by previous research and might be useful if further explored in different areas of business (service, manufacturing and so on), that was still open to explored and this would be the contribution of this study.

Based on the study above, it can be concluded that there are several factors that influence employee performance, namely (1) transformational leadership style, (2) organizational culture, and (3) compensation, then there is also involvement from (4) work environment. Therefore, the formulation of the problem in this study appears as follows: Does the transformational leadership style affect employee performance? Does organizational culture affect employee performance? Does compensation affect employee performance? Does the work environment have a mediation effect on employee performance? In accordance with the formulation of the problem, this study aims to determine what factors influence the increase and decrease in employee performance.

Literature Review

Transformational Leadership Style

By evaluating the strengths and shortcomings of his subordinates and giving them emotional support to feel deeply accountable for the task, a leader may help the organization accomplish its success goals. In order to boost efficiency, transformational leaders inspire their followers to utilize their knowledge or expertise wisely, view issues from many perspectives, become experts at problem-solving, and choose the most appropriate solutions (Fong-Yi, 2020). To provide the groundwork for a transformative leadership style that leaders must exhibit for performance and results to function smoothly, Bass et al. (1985) offer four components. These elements are listed as follows: Influence that is idealized or motivating, inspiration, intellectual stimulation, individual concerns, and influence (Bass et al, 1985).

Organizational Culture

Any organization must have a culture, but it can be challenging to create a clear-cut description. When an organization successfully implements its organizational culture, it can then be used to instruct new members on how to understand, think, and feel in managing the organization. External adaptation and internal integration solve this pattern of basic assumptions (Lehman, 2017). According to McDermott & O'Dell (2001) and Lehman (2017), organizational culture has three degrees. (1) Artefacts; (2) Adopted beliefs and ideals; (3) Fundamental presumptions. According to Zulkifli (2013), organizational culture may be identified by seven characteristics: innovation and risk-

taking, attention to detail, outcome orientation, human orientation, team orientation, aggression, and stability.

Work Environment

It is crucial to consider an organization's workplace since it may impact employees' levels of engagement with their work. The working conditions are advantageous if employees have a comfortable, safe, and healthy workplace (Jufrizen, 2020). The work environment comprises the social and physical aspects of the workplace (Taheri et al., 2020). The first characteristic is the workplace's physical condition. Employee performance and enthusiasm will be encouraged and improved in a supportive work environment, increasing job satisfaction (Nabawi, 2019). Everything that is and is present around employees, physically and virtually, that may impact their assigned duties is referred to as the "work environment." The office environment, however, has five qualities, according to Josephine and Harjanti (2020): cleanliness, lighting, ventilation, noise, and security.

Compensation

Individual remuneration is crucial because it may indicate how much effort an individual contributes to their coworkers, family, and communities (Sudiardhita et al., 2018). Employees will become more loyal to the company if they get rewards and will likely work more to help the organization reach its objectives. Receiving regular earnings or salary, extra financial income (bonuses, overtime pay, and prizes), the availability of health insurance, and special rewards are the four main indications of compensation (Wijaya, 2017).

Employee Performance

The multidimensional idea of performance differentiates tasks and employee performance. The propensity for lower employee performance may be noticed in the employees' low motivation to do their tasks on time; thus, they must be punctual in informing management of work accomplishments (Rivai, 2020). According to Suwanto (2019), there are nine indications of employee performance: initiative, knowledge and skillfulness, thoroughness, accuracy, achievement of goals, understanding and adherence to rules and regulations, cooperation, and excellent employee relations.

Hypothesis Development

Employee performance in the population under investigation is positively impacted by inspirational motivation obtained from indices of transformational leadership style (Top et al., 2020). Employee performance is positively impacted by transformational leadership style and is significantly affected. The study's results (Lai et al., 2020) show that transformational leaders significantly and favorably improve employee performance.

H1. Transformational Leadership Style has a positive and significant effect on Employee Performance.

Organizational culture exists throughout the company or organization globally with the good aim of helping the employees in it. The stronger and greater the organizational culture that the organization owns will affect its performance for the better in the future (Arif et al, 2019). Also, organizational culture has a positive and significant effect on employee performance (Eniola et al., 2019; Maartje et al., 2020).

H2. Organizational Culture has a positive and significant effect on Employee Performance

Compensation positively affects employee performance in the company (Poluakan et al., 2019). The greater the compensation the company provides to employees, the greater the motivation and enthusiasm of employees to maintain good performance. The study's results (Jufrizen, 2018; Fauzan, 2022) confirm that compensation positively and significantly affects employee performance.

H3. Compensation has a positive and significant effect on employee performance.

In previous research (Nugroho et al., 2020), there was a significant relationship between transformational leadership style and the environment, which has increased the performance of all employees in the company. There is a need for a shared leadership style that contains a mixture of attributes from both styles to encourage the environment. The degree of correlation between leadership style and environment on employee performance is very strong, however leadership style can directly affects the work environment (Prameswari, 2020).

H4. Transformational Leadership Style has a positive and significant effect on the Work Environment.

Organizational culture and work environment are implemented simultaneously; they will mutually support each other to support employee performance. Thus, a high organizational culture with a high work environment can create maximum performance; conversely, if the organizational culture and work environment decrease, employee performance will decrease. Organizational culture and work environment jointly significantly positively affect employee performance (Ermita et al., 2021).

H5. Organizational Culture has a positive and significant effect on the Work Environment.

The work environment positively and significantly affects employee performance (Sunarsi et al., 2020). A comfortable work environment will cause the level of concentration of employees in work to increase, and these conditions can cause the level of employee productivity to increase. The work environment significantly affects employee performance (Sugiarti, 2020).

H6. Work Environment has a positive and significant effect on Employee Performance.

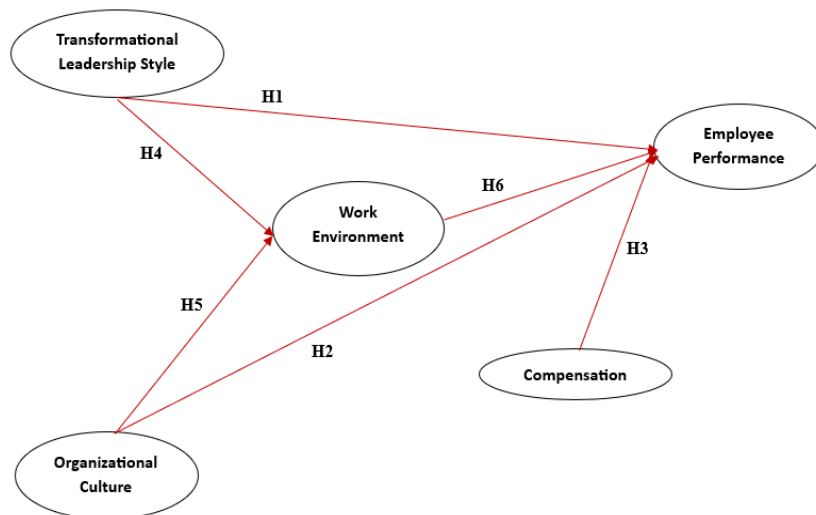


Figure 1. Conceptual Framework

Materials and Methods

Sample and Procedure

This research uses an explanatory study (Sekaran et al., 2016) with a quantitative approach; the aim is to explain the influence between variables by providing intervention in each statement item. Data cross-sectional studies were obtained from primary sources by distributing questionnaires to respondents simultaneously. The population used is

workers in the industries environment (service, manufacturing and so on). Since the population data is unknown, this study adopted the non-probability sampling technique in determining the research sample, with technique convenience sampling, sample type population size unknown, and using calculations sample to item ratio (multivariate rule of thumb). Determination of the number of samples refers to the 10-times rule (Hair et al., 2021). The author determines the number of samples, $10 \times 30 = 300$. Each statement on the variable will be measured using a five-point Likert Scale type, from Strongly Disagree (or 1) to Strongly Agree (or 5) (Table 1, appendix).

The analysis method used the analysis program Partial Least Square (PLS). The data analysis technique that will be used is to do preliminary considerations, measurement model assessment (robustness checks CTA-PLS), structural model assessment (robustness checks nonlinearity, endogeneity, heterogeneity) by conducting a hypothesis test to determine the significance of the variables X1, X2, X3, and M on variable Y (Hair et al., 2019).

Results and Discussion

Profile of the Respondents

The profile of respondents shows that there are far more female customers than male customers (51.1% vs. 48.9%), with the majority being in the age range of 20 to 25 years (50.5%). This study did not attempt to balance the sexes of the respondents and to determine differences between the sexes in terms of performance in their jobs, this is because the purpose of this study is to identify the factors that affect employee performance. Regarding education level, the majority (68.3%) had a bachelor's degree, and the majority (68.3%) were domiciled in Greater Jakarta. Then regarding work, most respondents were employees or clerks (66.7%) and the majority (63.4) of the respondents worked in the service sector. Table 2 presents the profiles of the respondents. (Table 2. Profile of the Respondents)

Reliability and Validity

The results Cronbach's Alpha and Composite Reliability exceed the recommended limit of 0.7. The average variance (AVE) exceeds the recommended limit of 0.5 which can strengthen convergent validity. In testing the measurement model, we found loading value that does not reach a minimum value of 0.7 therefore the two items (OC-8 and EP-11) were deleted, then all items exceed the required value. The discriminant validity used is the Discriminant Validity Heterotrait-Monotrait Ratio (HTMT) which also suggests that the square root of each AVE construct must have a greater value than the correlation with the latent construct. The results of the tests are in tables 3 and 4 (appendix).

Structural Model

This test uses the PLS-SEM technique, the partial least square is a structural equation in SEM which is an alternative approach that is different from SEM which is based on covariance to variance (Hair et al., 2021). The R square value is the coefficient of determination in the endogenous construct (Sekaran and Bougie, 2016), and the result was R square for employee performance shows 0.449 which is included in the weak construct. The latent construct is considered relevant if the Q2 Predict value is greater than zero, and all endogenous latent variables can be predictive (Table 5. Structural Model, appendix).

Figure 2 (appendix) described the coefficients between the variables and the level of significance using PLS-SEM bootstrapping to obtain the standard error in hypothesis testing. In testing the hypothesis, it is necessary to take random samples repeatedly with the original sample in the bootstrapping process to produce 5000 samples. As a result, all hypotheses tested were supported, except for the hypothesis that state compensation has a

positive and significant effects on employee performance was not supported (Table 6. Bootstrapping, appendix).

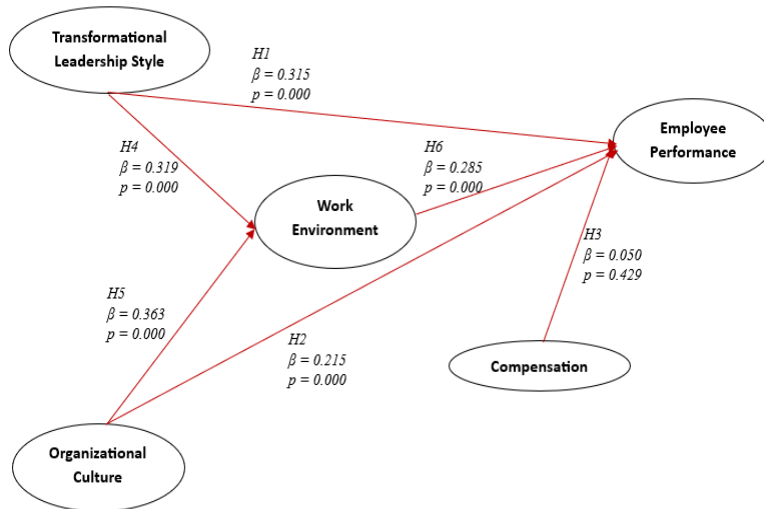


Figure 2. Structural model.

Bootstrapping

The results of the hypothesis in table 6 show that; TLS → EP ($\beta = 0.315$, $t = 5.605$, $p < 0.001$), OC → EP ($\beta = 0.215$, $t = 4.11$, $p < 0.001$), TLS → WE ($\beta = 0.319$, $t = 5.263$, $p < 0.001$), OC → WE ($\beta = 0.363$, $t = 6.11$, $p < 0.001$), and WE → EP ($\beta = 0.285$, $t = 4.543$, $p < 0.001$). One hypothesis was rejected: Compensation → Employee Performance C → EP ($\beta = 0.05$, $t = 0.791$, $p = 0.429$). (Table 6. Bootstrapping)

This study supports a substantial and positive relationship between transformational leadership style and employee performance (H1), indicating that transformational leadership style influences employee performance at work. Overall, an average score of 4.32 was calculated for the transformational leadership style, indicating that the majority view influential leaders as those with a transformational leadership style. Transformational leadership style has a positive relationship with employee performance also validated by Top et al (2020).

Substantial and positive results were also obtained in this study on the relationship between organizational culture and employee performance (H2), indicating that organizational culture influences employee performance. Companies with a culture that supports employees to develop and always involve employees in decision making are considered to be able to improve employee performance, and this result was also support previous study (Arif et al, 2019).

A positive and substantial relationship is also seen in the relationship between transformational leadership style and work environment (H4), respondents feel that transformational leadership style can create a good work environment, this is supported by Prameswari (2020). A positive and substantial relationship is also seen in the relationship between organizational culture and work environment (H5), respondents feel that organizational culture can create a good work environment, this is supported by (Ermita et al., 2021). If the work environment is good, it can affect employee performance (H6), because this study obtained a substantial and positive relationship between work environment and employee performance. In the case of the work environment having a positive relationship with employee performance it is also validated by Sugiarti (2020).

In contrast, one hypothesis is rejected, the relationship between compensation and employee performance is rejected (H3). This study found new findings that the

compensation provided by the company where employees work does not affect the performance of employees who are the object of the research population.

This study involved 309 respondents, where the majority were female, the majority were aged 20 to 25 years, the majority had an undergraduate education background, the majority lived in Greater Jakarta, the majority worked as employees, and the majority worked in the service sector. The results of this study describe the respondents. What is interesting is that compensation does not affect employee performance, which means that other influences affect employee performance besides compensation. Specifically, the compensation presented in this study is not distinguished by the type of compensation, as in the concept of compensation, it is divided into direct and indirect compensation. Then the challenge in this research is the type of industry, and the respondent's domicile is not considered. so that it has the opportunity to be studied for further research.

Conclusions

In order to fulfill their vision and goal, businesses must regard their people as dynamic assets who may continue to develop. Additionally, employee performance will have an impact on business performance. The findings indicated that the impact of transformational leadership style, organizational culture, and work environment on employee performance is the greatest among the latent factors. Interestingly, it was discovered that remuneration had no discernible impact on worker performance.

Theoretical Implications

The findings of this study can be applied to future research to help identify the variables that affect employee performance at work. A rise in employee performance may not occur due to the remuneration supplied by the organization. This research reveals that the compensation element has no impact on employee performance. As a result, these discoveries might shed light on what influences employee performance enhancement.

Practical Implications

Companies might use the study's findings to analyze policy issues from the perspective of their employees. In business, competition is always going to grow and get stronger. Companies demand proper actions that are timely and involve employee participation.

This research is anticipated to give company management suggestions and a general overview of the plan for the firm, as improving employee performance is one way for a business to survive and grow. Regarding employee performance, respondents highlighted the significance of organizational culture, work environment, and transformational leadership style on their performance as corporate workers. This study demonstrates that employee performance is unaffected by pay.

Limitations and Future Suggestions

The link between a transformative leadership style, organizational culture, pay, and work environment is investigated in this study. One of the six unsubstantiated assumptions was present in this study, indicating the need for more research to identify other factors that may impact employee performance, particularly those connected to the profile of the study's respondents. Future studies are suggested to compare groups in describing the respondent's profile using additional variables.

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