

**THE EFFECT OF FINANCIAL COMPENSATION AND
TRANSFORMATIONAL LEADERSHIP STYLE ON
EMPLOYEE PERFORMANCES
(Empirical Study on Hotels in Yogyakarta)**

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Abstract: The purpose of this research is to examine the effect of financial compensation and transformational leadership on employee performance by using 8 hotels in Yogyakarta which were selected using random sampling. Data collection method in this research was questionnaire. The population that became the object of research was the employee of hotel in Yogyakarta with total sample was 73 employees who came from 8 hotels. Hypothesis testing is done with multiple linear regression analysis through SPSS 15.0 for windows program. The result showed that financial compensation and transformational leadership have significant effects on employee performance.

Keyword: financial compensation, transformational leadership style, employee performance

I. INTRODUCTION

Established company will have their own objectives. Company's objectives can be increase their profit, maximize shareholder value, minimize risk and accountable to many stakeholders (Anthony and Govindradjan, 2005). Management as the responsible operation of a company will always strive to reach the company's purposes so that companies have increase in value.

Business world is now required to create high employee performance for the development of the company. Schuler (1990) explains that managing resources within a company can improve competitiveness to face globalization. Company's success is influenced by several factors, one important factor is the power source of human beings. Human resources are the perpetrators of the overall level of planning to evaluation that can take advantage other resources owned by an organization or company. This is similar to the opinion of Notoatmodjo (2003) which states that an agency must be supported by skilled human resources because human resources have an important role in running the business or activities within the agency. Therefore, the existence of human resources in a company hold the very important role. Labor has great potential for running the company's activities. Potential in each existing human resources in company should be utilized as effective as possible to provide optimal output. Kasenda (2013) reveals that human resources is a central factor in an organization. The success or failure of an organization in performing its duties and functions are closely related to the employee of the organization, or in other words human resources have a strategic role in determining the success or failure of the organization achievement.

Compensation according to Hasibuan (2012) is all income in the form of money, goods directly or indirectly received by employees as a reward for services rendered to the company. The purposes of giving

compensation among others are cooperative ties, job satisfaction, effective procurement, motivation, employee stability, discipline, and the influence of trade unions and the government.

Compensation is an award or reward to workers who have contributed in realizing its objectives, through activities called work (Nawawi, 2001). The form of financial compensation are salary, allowances, and incentives. Whereas for non-financial compensation includes training, authority and responsibility, awards for their performances as well as a supportive work environment.

Another factor that can influence the employee's performance is the leadership style. Increasingly fierce competition causes many organizations to realize the importance of achieving capacity in order to achieve the mission and objectives. To face competition, companies are required to improve the employee's performance. Leadership is an important factor in providing direction to employees. Martoyo (1990) says that leadership is the whole activity in order to influence people to be willing to work together to achieve a goal that is desired together.

Bass et al. (2003) and Locander et al. (2002), find important factors that determine employee performance and organizational capability in adapting to environmental changes is leadership. Leadership describes the relationship between the leader and the followers and what the leader's goals (Locander et al., 2002; Yammarino et al., 1993). The concept of

rapidly growing leadership is the concept of transactional and transformational leadership popularized by Bass in 1985 (Locander et al., 2002).

Yogyakarta Special Region (DIY) is one of the areas in Indonesia which is famous for having many places of tourism. Therefore, many foreign and local tourists like to visit this area. This causes the emergence of business competition in various areas of business both service and non-service. One of the obvious business competition is the hospitality business. The following data growth of tourist visits to the Special Region of Yogyakarta in 2011-2015:

Table 1.1 Growth of tourists visiting DIY year 2011-2015

Year	Foreign Tourists	Growth (%)	Local Tourists	Growth (%)	Foreign and Local Tourists	Growth (%)
2011	169,565	9.57	1,438,129	1.37	1,607,694	2.17
2012	197,751	16.62	2,162,422	50.36	2,360,173	46.80
2013	235,893	19.29	2,602,074	20.33	2,837,967	20.24
2014	254,213	7.77	3,091,967	18.83	3,346,180	17.91
2015	308,485	21.35	3,813,720	23.34	4,122,205	23.19

Source: Yogyakarta Tourism Statistics 2015

The increasing number of tourists visiting has a great impact on the development of hospitality business in DIY. When Hospitality business increases and develops the competition among hotel entrepreneurs becomes tighter. The number of hotels that continue to grow make the number of guests staying or Length of Stay (LOS) hotel in DIY decrease.

Here is the data of long-stay developments of tourists in DIY year 2011-2015:

Table 1.2 Growth Length of Stay of tourists in DIY year 2011-2015

No	Accommodation	Year									
		2011		2012		2013		2014		2015	
		FT	LT	FT	LT	FT	LT	FT	LT	FT	LT
1	Non Star Hotel	1.82	1.74	1.71	1.59	1.73	1.56	1.74	1.56	1.79	1.60
2	Star Hotel	2.02	1.71	1.84	1.53	1.95	1.65	2.01	1.62	1.99	1.66

Source: Yogyakarta Tourism Statistics 2015

Note : FT (Foreign Tourists) LT (Local Tourists)

Recorded increase of foreign tourists who visited Yogyakarta amounted to 41.89% during January to July 2016 compared to visits during 2015 (*Tribun Jogja*). The high foreign tourists who come to the city of Yogyakarta make hotels in Yogyakarta a choice of a temporary residence. Therefore, the competition between hotels to provide good service to its customers is the right strategy to attract tourists who come.

Employee performance is important and needs to be taken seriously by the hotel management in improving the productivity of the hotel. Employee performance has an influence on hotel productivity. In practice, many hospitality companies are less able to compete with other hospitality companies because of the low employee performance.

Previous research conducted by Pasuma (2013) find that the provision of compensation has a positive effect on employee performance.

Pasuma (2013) conducted a research about the effect of competency, compensation, and leadership to the employee performance. It was conducted at Ratumbuysang Hospital in Manado. This research used asosiative method with multiple regression as the analysis technique. This research is in line with other research conducted by Hameed et al. (2014) and Aktar et al. (2012). Aktar et al. (2012), says that rewards can influence employee performance. On the other hand, there is research that results contrary to the above studies, it is research conducted by Handayani (2013). Handayani (2013) finds that compensation has no significant effect on employee performance. Other research that support this statement is research conducted by Widyarto (2012). Based on those inconsistent results, the writer is about to conduct a research about the effect of compensation on employee performances, especially financial compensation.

According to some research has been done before, it use different research object. Research conducted by Pasuma (2013) used Ratumbuysang Hospital in Manado as his research object. Hameed et al. (2014) and Aktar et al. (2012) conducted research with Banking sector as research object. Handayani (2013) and Widyarto (2012) used manufacture company as their research object. Through this research, the writer tries to figure out about the influence of financial compesation and leadeship style on employee performance that exist in Hotel scope in Yogyakarta. The

results of this study are expected to be used as means of assistances by managers in decision making.

The high performance of an employee is determined by the provision of financial compensation that causes an employee to develop his/her work ability based on the provision of financial compensation in triggering the employee performance improvement. It is supported by research conducted Kende et al. (2016). It was find that financial compensation and tranformational leadership have significant effect on the employee performance. On the other hand, the different leadership styles that exist in various companies encourage researchers to do research etitled: **The Effect of Financial Compensation and Leadership Style on Employee Performances.**

Based on the background that has been described, then the formulation of this research problem are: 1) Does the financial compensation consisting of salary, allowances and incentives affect the employee performance? 2) Among the provision of financial compensation, which dominant effect on the employee performance? 3)Does the transformational leadership style affect the employee performance?

Hypotheses in this research is based on relevance theory and also supported by result in previous research. Hypotheses development for each hypotheses is as follow:

Vroom (1996) points out expectancy theory, which states that employee's motivation is an outcome of how much an individual wants a reward (valence), the assessment that the likelihood that the effort will lead to expected performance (expectancy) and the belief that the performance will lead to reward (instrumentality). In other words, employee expect that performance will increase if their effort increases too, and a good performance will get rewards from the company. Logically, employee will try to improve their performance to get reward from company (compensation).

The compensation given by the company to its employees will increase the morale of employees to do their work. This is in line with research conducted by Sugiyarti (2012). His research examines the effect of work environment, organizational culture and compensation on job satisfaction to improve employee performance. One of the findings of this study is that compensation has a positive effect on employee performance. In other words, employee performance will increase if the compensation received by employees is higher.

Another study was conducted by Kende et al. (2016) which resulted in financial compensation that has a significant effect on

employee performance with positive relationship coefficient in the form of positive, meaning that the higher the financial compensation is, the greater the employee performance will be. Noe (1993) suggests compensation is divided into financial and non-financial compensation, while financial compensation is divided into salaries, allowances, and incentives.

Based on the description, it can be concluded that the compensation by the company to employees is important. Company achievement generally depends on the employee performances. According to expectancy theory, employees will hope to get reward from their effort and performance. Therefore, employees will strive to improve their performance and try to do their best and achieve a good performance in hope of receiving rewards or compensation. Therefore, the higher compensation given, the better employee performances will be. From some of the above description, the authors formulate the hypothesis as follows:

H₁ : Compensation has positive effect on the employee performance

Manager's leadership style will influence the performance of employees who work at the company. Leaders who can provide good motivation and direction will facilitate and help employees feel comfortable in the work so that they will try as much as possible to perform tasks and roles in the company. While the leader, who is

indifferent and doesn't give attention to employees will emancipate employees to behave in accordance with their own willingness.

Fiedler (1967) presents leadership contingency model theory in which he proposed that effective employees performance depended on leaders' ability to lead its contingent upon situational factors that include the leaders' capabilities, preferred style, and behavior, competency of employees. In other words, the level of employee performanes is influenced by the motivation from the leader and the extent to which the leader can control and influece a particular situation.

Leadership style according to Bass et al. (2003) and Locander et al. (2002) is divided into transactional leadership and transformational leadership. Transformational leaders evaluate the ability and potential of each subordinate to perform a task/job. In a study conducted by Kende et al. (2016), transformational leadership has a positive and significant effect on employee performance.

Both types of leadership, transactional and transformational are always related to the achievement of company goals. Transformational leadership always deals with greater outcomes for individual and organizational goals. Bass (1998) reveals that transformational leadership articulates the vision and stimulates his subordinates, gives great support, and through teamwork, individuals are given the flexibility to adapt and be responsible. Transactional leadership only encourages employees to see

what affects them because they are only rewarded for their own performance. From the description above, the researcher formulated the hypothesis as follows:

H₂ : Leadership style has positive effect on the employee performance.

It is important for companies to improve their employee performances. Providing financial compensation as well as existing leadership styles in the company can affect employee performances. The higher the financial compensation is, the greater the employee performance will be. Similar with leadership style, the better leadership style in the company then the employee will be able to do their job and have a good performance. Therefore, the third hypothesis of this study is:

H₃ : Financial compensation and leadership style have positive effect on the employee performances.

II. RESEARCH METHODOLOGY

This research uses quantitative research type and using field approach. The data used in this study was the primary data. The population of this research was employees of Hotel in Yogyakarta. Technique of sampling that writer use was random sampling with total sample that were 100 hotel employees in Yogyakarta. Data collection techniques used in this study was using questionnaires. Data obtained from the results of questionnaires would be processed by using SPSS with multiple linear regression analysis. The questionnaire was adopted from

Prasetyo (2014). Points of question or statement in the questionnaire were based on relevant management theory and from the findings of previous research. Questions or statements in the questionnaire were measured using a likert scale, that is a scale containing 5 levels of preferred preference with choice as follows: score / value 1 to 5 which means value 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree and 5 = strongly agree.

The total questionnaire for financial compensation is 9 items and transformational leadership style is 12 items. Questionnaire for measure transformational leadership style is selected based on criteria from Robbins (2006). The total questionnaire for employee performance is 9 items. The testing instrument consisted of validity test, reliability test, and classic assumption (normality test, multicollinearity, and heteroscedasticity test). The technique of data analysis used to test the hypothesis instrument multiple linear regressions.

Multiple linear formulas:

$$EP = \alpha + \beta_1 FC + \beta_2 TS + e$$

Information:

EP	= Employee Performances
α	= Constanta
$\beta_1 - \beta_2$	= Coeficient Regression
FC	= Variable Financial Compensation
LS	= Variable Transformational Leadership Style
e	= Error disturbances

III. RESULT AND DISCUSSION

Based on the data collected in this research, the number of questionnaires distributed was 100 pieces and the number of filled out questionnaires was 76 pieces and the rest were not returned by the hotel. Seventy-six data were obtained from 8 hotels in Yogyakarta, which consisted of 2-star hotels and 6-non-star hotels. However, only 7 pieces of questionnaires could be processed and used as research data while the other 3 questionnaires could not be processed because they were unfilled or empty. Based on the data collection by using questionnaires, the characteristics of respondents who become the population in this study are divided into several groups, namely: gender, work status, age, last education, and length of work.

The respondents in this study consist of 31 respondents with female gender while 42 others are male. Most respondents those with age between 39-50 years old as many as 28 people (38%), while the least are respondents with age > 50 years as many as 2 people (3%). Other respondents with age between 17 - 27 years old are 26 people (36%) and the rest are between the ages of 28 - 38 which is 17 people (23%). Beside that, most of respondents in this study have undergraduate program as their latest education namely 34 people (47%). Respondents with the latest education of Senior High School / Vocation are as many as 12 people (16%), while the latest education Diploma are as many as 27 people (37%). Respondents in this study mostly have worked

in the field of hospitality for 6 - 10 years are as many as 44 people (60%). Respondent with length of work < 1 year are as many as 6 people (8%), respondents with length of work < 1-5 years are as many as 21 people (29%), and respondents with length of work > 10 years are as many as 2 people (3%).

The instrument test is used to assess whether the instrument used is feasible and can be continued as an instrument in this study. Therefore, the research instrument must meet the criteria of validity and reliability to be used in research. The test instruments was performed to 73 hotel employees included in the research sample.

Table 4.1 Result of Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Dev
Financial Compensation	73	18	45	32.85	4.957
Transformational Leadership Style	73	30	58	45.67	4.378
Employee Performance	73	24	43	33.60	4.148
Valid N (listwise)	73				

Source: Data Processing, 2018

From the descriptive statistic table above, financial compensation (FC) has mean 32.85 with the standard deviation is 4.957. The minimum value of financial compensation is 18 and for the maximum value is 45. Transformational leadership style (LS) has mean 45.67 with the standard deviation is 4.378. The minimum value of financial compensation is 30 and for the maximum value is 58. Employee performance (EP) has mean 33.60

with the standard deviation is 4.148. The minimum value of financial compensation is 24 and for the maximum value is 43.

Validity Test

The result of the validity test shows that the KMO value of all variables is more than ($>$) 0.5 so it can be said that all variables pass the validity test. KMO value of financial compensation is 0.869, KMO value of transformational leadership style is 0.654, and KMO value of employee performances is 0.836.

Reliability Test

Cronbach's Alpha value is generated above 0.60, so it can be concluded variable used is reliable. The Cronbach's Alpha value of financial compensation, transformational leadership style, and employee performance respectively is 0.9000, 0.799, and 0.886.

Normality test

The output of SPSS obtained the value of Asymp. Sig. (2-tailed) 0.251 is greater than alpha 0.05, so the data is distributed normally.

Multicollinearity tes

The result of multicollinearity test shows that all of the variables have tolerance value more than 0.1 and the VIF value is less than 10. Financial compensation have tolerance value 2.727 and the VIF value is 0.008. Transformational leadership style have tolerance value 2.786 and the VIF value is 0.007.

Heteroscedasticity test

Based on the results of heteroscedasticity test through glejser test can be seen that the significance value of each independent variable is above or higher compared with the 0.05 significance value. Therefore, it can be concluded that there is no heteroskedastisitas on independent variables used in this study. Financial compensation have sig value 0.261 and transformational leadership style have sig value 0.860.

t-Test

The following is the result of t-test conducted on the research variables:

Table 4.2 Result of t-Test

Model	Unstandardized Coefficients		Sig.	
	B	Std. Error		
1				
	(Constant)	11.417	4.101	.007
	Financial Compensation	.258	.904	.008
	Transformational Leadership Style	.298	.107	.007

Source: Data Processing, 2018

$$EP = 11.417 + 0.258FC + 0.298LS + e$$

From the table above in the column Unstandardized Coefficients B for each variable, the transformational leadership style variable affects the employee performance channeled by 0.298 and the financial compensation variable affects the employee's performance of 0.258. The positive value means the better transformational leadership style or the higher financial compensation the better employee performance.

The significance of independent variables on the dependent variable can be seen from the Sig value. The significance value for the transformational leadership style variable is 0.000, meaning that this variable has a significant effect on employee performance. Similarly with financial compensation variable that has a sig value of 0.000 which means this variable significantly influences employee performance.

Therefore, it can be concluded that the influence between transformational leadership style and financial compensation on employee performance is significant because the significance value is smaller than $\alpha = 0.05$. Hence hypothesis nul is rejected, whereas alternative hypothesis is accepted.

F Test

The results of F Test analysis can be seen in the following table:

Table 4.3 Result of F Test

Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	373.296	2	186.648	17.080	.000(a)
	Reidual	764.951	70	10.928		
	Total	1138.247	72			

Source: Data Processing, 2018

The result of F test is F arithmetic 17.080 with a significance value of 0.000, because significant value is less than 0.05 then H_0 is rejected. Thus, it can be concluded that the transformational leadership style and financial compensation simultaneously have a positive effect on employee performance.

Coefficient Determination Test

The results of coefficient of determination analysis can be seen in the following table:

Table 4.4 Result of Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.573(a)	.328	.309	3.306

Source: Data Processing, 2018

The results in the table show the adjusted coefficient of determination adjusted R square is 0.309 or 30.9% employee performance (EP) can be explained by the variable of transformational leadership style and financial compensation. While the rest of 69.1% (100% - 30.9%) is explained by other variables that are not known and not included in this study.

IV. CONCLUSION, SUGGESTION AND RESEARCH LIMITATION

This study aims to provide empirical evidence on the influence of transformational leadership styles and financial compensation on employee performance. Based on the results of the data analysis and discussion related to the influence of transformational leadership style and financial compensation on employee performance can be drawn conclusion as follows: 1) The transformational leadership style positively affects employee performance. This is proven by the value of t arithmetic (2.786) > t table (1.669). 2) Financial compensation has a positive effect on employee performance. This is proven by the value of t arithmetic (2.727)

> t table (1.669). 3) The transformational leadership style and financial compensation simultaneously have a positive effect on employee performance. This is proven by the sig value $0.000 < \alpha 0.05$.

Based on the results of research and related to the limitations of this study, further suggestions can be suggested that will be useful as follows: The results of this study indicate that Employee Performance can only be explained by 30.9% by the two independent variables. For future research, the next researcher should be able to add other variables. Suggestion for the next researcher is that the distribution of questionnaires can be supported by interviews or direct face-to-face interviews with respondents. Suggestion for the manager of the hotel is to be considered as the variable of financial compensation and transformational leadership style, because based on the result of this research, financial compensation and transformational leadership style have a positive impact on employee performance.

This research has some limitation, they are: 1) The financial compensation variable is only made in one variable in general, so it can not identify which type of financial compensation that has the most significant effect on the dependent variable. 2) This study is limited to the data from the result of questionnaire that are still slightly limited compared with the existing population.

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