

The Effect of Leadership and Compensation on Employee Performance: Evaluating the Role of Work Motivation

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Abstract

This research aims to evaluate the effects of leadership and compensation toward employee performance, and the role of motivation in Savings and Loans Co-operatives in Palembang, Indonesia. The study took 100 respondents from a population of 130 co-operatives' managers. The researchers applied validity and reliability testing towards 30 pilot testing respondents. The descriptive analysis used SPSS and inferential analysis used Lisrel 8.8. with Structural Equation Model (SEM). The findings revealed that leadership significantly affect work motivation. Compensation does not affect work motivation.

Meanwhile, work motivation significantly influence job performance. Leadership owns a more considerable direct influence (0.23) on job performance than indirect effect through work motivation (0.08). Compensation has a more prominent direct influence (0.32) on performance than the indirect impact through work motivation (0.03). It means that leadership is not the mediating variable. The findings showed that leadership and compensation could directly improve employee performance without the involvement of employees' motivation. The total influence of leadership towards job performance through work motivation is more significant (0.55) than the total influence of compensation towards job performance through work motivation (0.24). The critical finding of this research is improving job performance in Savings and Loans Co-operatives in Palembang by increasing work motivation and leadership capacity.

Keywords: Leadership, Compensation, Work Motivation, Job Performance, Co-operatives Business

1. INTRODUCTION

(Ratten, Ramadani, Dana, Hisrich, & Ferreira, 2017) argue that environmental changes are increasingly fast and uncertain, marked by globalization so that the level of dependence between countries increase. According to (Schwab, 2017), the development of science, technology, and digital communication encourage free trade. These will lead to a borderless

world paradigm, namely a world that does not recognize territorial boundaries of sovereignty of the nation and state. The impact has entered almost all aspects of people's lives in the world. As a result, the map of economic strength and climate of the business world will be coloured by increasingly high competition so that it will create new uncertainties that exceed the anticipation capabilities of every business actor. Therefore, every business actor must further enhance their ability and resilience by mobilizing all available potential to win the competition.

The development of various business sectors has an impact on the high capital requirements, especially in the informal sector, which is still unreachable by banks. Requirements for obtaining capital loans from banks that are relatively difficult to fulfil, the need for collateral in the form of securities such as land certificates, vehicle certificates, bookkeeping, and has been running for at least three years, as required by the South Sumatra rural banks. Informally, it is generally untouched by the banking sector. An informal sector is a form of business that survives and absorbs the labourers when the multidimensional crisis persists and absorbs much labour. It is unfortunate if the informal enterprise's massive potential becomes paralyzed merely because of the lack of capital that the banks cannot support.

In addition to banking, financial institutions that can bridge capital problems for the informal sector are co-operatives. Looking at the co-operatives space that strongly supports the economy of its members, the authors attempt to research the growth and development of fundings and landing co-operatives in Palembang, where in general savings and loan co-operatives that work only save money, provide and commercialize credit loans for members only, these co-operatives work based on specialization (Moses, 2008).

2. LITERATURE REVIEW AND THE DEVELOPMENT OF HYPOTHESIS

2.1. The influence of leadership on work motivation

According to (Lussier & Achua, 2015), leadership is the process of controlling subordinates to know and obey on what and how to do the task effectively. Leadership is the dynamics of supporting employees and group works to achieve common goals. Leadership can apply the power of thought and expertise to convince his subordinates to be willing to do the job assigned to them with a sense of responsibility and enthusiasm and will ultimately affect work motivation. In line with the leading goal, work motivation is a situation that brings people towards a specific target (Dessler, 2015).

The findings revealed that job motivation significantly influenced the performance-based (Taghipour & Dejban, 2013) and (Mücelandili, Turan, & Erdil, 2013). The empirical findings were that the value of authentic leadership could develop fabrication and renewal in work. A study by (Syafii, Thoyib, & Nimran, 2015) explained that leadership prominently influence job performance. Research by (Văcar & Miricescu, 2013), concluded that leaders understand and realize as agents of development that involve the group in the process of decision-making. The managers also use various awards to achieve their goals. So, organizations that want to succeed

are organizations that have leaders who have quality and skills in improving employee performance. The next research by (Ciobanu & Androniceanu, 2015) showed that factors mainly related to daily activities, such as the boss's leadership style, influenced civil servants' work motivation. In conclusion, the researchers concluded that the motivation of employees to work in Romanian public sectors because of motivational factors: the favourable work atmosphere and situation of every activity during working days.

H₁: Leadership significantly affects work motivation.

2.2. The influence of compensation on work motivation

(Bratton & Gold, 2017) argue that organizations that carry out merit pay compensation are to improve employee performance; this is because this awarding system will motivate employees to improve their performance. The compensation received will affect the level of employee satisfaction and impact performance creativity or increase work motivation, from the compensation theory, the compensation can influence an employee's motivation to increase their work motivation. (Lussier & Hendon, 2017) suggest that compensation reminds between the individual, the group, or organizational achievement that can include: deductions, commissions, bonuses, stimulus, and production.

Research conducted by (Adeoye & Elegunde, 2014) and (S Haryono, Supardi, & Udin, 2020) showed that compensation and motivation management have to be very basic for the organization in facilitating goal achievement. For an organization to stand a competitive advantage, the fruitful rewards and motivation strategies must be the primary consideration in recruitment, retention and employees' skill improvement who dedicate for the achievement of the organization.

Reward management aims to prevent absence; labour intends to leave work, and industrial unrest. The ultimate objectives of compensation are to rectify organizational productivity and guaranteed employee performance that leads to competition. Likewise, the research (Rizal, Idrus, & Djumahir, 2014) showed that compensation significantly affects work motivation and organizational commitment. Meanwhile, organization commitment and work motivation significantly impact work motivation. The finding is also in line with a study by (Negash, Zewude, & Megersa, 2014). Furthermore, the findings support research by (Khan & Mufti, 2012), (Güngör, 2011), and (Njoroge & Kwasira, 2015) who revealed that compensation significantly correlates with work motivation.

H₂: Compensation significantly influences motivation

2.3. The influence of leadership on job performance

(Gibson, Ivancevich, & Konopaske, 2011) argue that poor job performance is not only the fault of employees; however, poor job performance also because of leadership patterns from leaders that are not appropriate. Without ignoring other influencing factors, researchers see that leadership factors and work motivation need serious attention to improve employee

performance. Leadership and work motivation is a human aspect of a mental attitude to use their abilities, skills, and skills in doing work to achieve high performance.

Research conducted by (Hetland, Hetland, Bakker, & Demerouti, 2018) revealed that partial support the hypothesis of leadership positively related to job performance. (Zehir & Erdogan, 2011) assure that leaders affect employee judgement about speaking or deciding to remain silent. Leadership behavior plays a substantial role in the company. Concerning leadership style, people trust that ethical leadership makes the employees are more confident to speak or to be more worthwhile. Leaders have to show ethical leadership in every attitude, policy, and movement. A research finding by (Yuan & Lee, 2011) revealed that organizational leadership had more varied effects on employees. (Samad, 2012) found that leadership and innovation significantly affected job performance. The findings also revealed that charismatic leadership and products or services rejuvenation are the most crucial aspects affecting organizational targets. (Mihalcea, 2014) Moreover, (Kelidbari, Fadaei, & Ebrahimi, 2016) argued that leadership affects job performance.

H₃: Leadership significantly influence work performance

2.4. The effect of compensation on employee performance

(Buchanan & Huczynski, 2019) argue sufficient compensation must meet the needs and satisfy employees, ensuring appropriate behavior to all employees who hope to reward performance. The more often a reward can be given, the higher the potential use as an instrument that can affect employee performance. Therefore, the most expected rewards are those that are most often employees received without dividing their meaning. Previous findings of (Güngör, 2011) revealed that financial compensation prominently affects job performance. Likewise, research by (Njoroge & Kwasira, 2015) found a significant correlation between reward and job performance appreciation in Nakuru regional government. The findings recommend that training needs and other non-financial compensation increase job productivity. (Hameed, Ramzan, & Zubair, 2014) found that reward positively impact job performance. Research by (Patrick, 2017) indicates that compensation correlated with overall job performance.

H₄: Compensation significantly influences employee performance

2.5. The influence of work motivation on employee performance

(Colquitt, Lepine, Wesson, & Gellatly, 2011) argued that elements that affect employee performance are skills and work spirit. According to (Champoux, 2004), motives strongly correlates achievement. An excellent achiever motive is an employee's encouragement to achieve performance with a commendable predicate. The finding by (Güngör, 2011) explained that both extrinsic and intrinsic rewards significantly impact job performance. A study by (Rizal et al., 2014) showed that work motivation prominently affects job performance. Organizational commitment also significantly influence job performance. Motivation significantly affects job performance better rather than organizational motivation and commitment to affect job performance. (Cerasoli, Nicklin, & Ford, 2014) mention that motivation is the most significant

attention for leaders. Leaders have to improve company tactics to encourage workforces. This effort is the ultimate goal of management to achieve enterprises' achievement.

H5: Motivation significantly influences job performance

3. METHODOLOGY

The design of this study is quantitative by developing valid and reliable questionnaires. The constructs of this research are leadership, compensation, work motivation, and job performance of Savings and Loans Co-operatives Business in Palembang, Indonesia. The measurement used a 1 – 5, the Likert model. The scale ranking is from "very disagree" to "strongly agree". Hundreds of respondent were selected intendedly from employees of Savings and Loans Co-operatives in the city of Palembang. Researcher and enumerator collected the data through face-to-face distribution. All of the respondents filled out and returned the questionnaires.

The study decided to use Structural Equation Modeling (SEM), with the assistance of Linear Structural relationship (LISREL) program version 8.80. The indicator of all constructs test employed the Goodness of Fit Test (GOF) technique. The instrument validity and reliability test used Confirmatory Factor Analysis (CFA). The CR (Construct Reliability) evaluation employed Alpha Cronbach's coefficient. Table 1 displays the CFA evaluation results. Table 1 also shows the loading factor coefficient of each indicator. An indicator that has loading factor ≥ 0.5 , so this indicator is valid. The test results show that all indicators are valid. Table 2 describes the critical values of CR and AVE. Construct Reliability (CR) is significant if the critical value ≥ 0.7 , and Average Variance Extracted (AVE) is significant if critical value ≥ 0.5 . The CFA, CR and AVE test results conclude that all indicators are valid and reliable (Siswoyo Haryono, 2017).

Table 1. Loading Factors' Coefficient of Each indicator

Construct, Indicator	Estimation (≥ 0.5)	Conclusion
Leadership (LP) :		
LP01	0.75	Valid
LP02	0.78	Valid
LP03	0.89	Valid
LP04	0.79	Valid
LP05	0.77	Valid
LP06	0.71	Valid
Compensation (CS) :		
CS01	0.81	Valid
CS02	0.95	Valid
CS03	0.74	Valid
CS04	0.90	Valid
Motivation (WM) :		
WM01	0.87	Valid
WM02	0.61	Valid

Construct, Indicator	Estimation (≥ 0.5)	Conclusion
WM03	0.91	Valid
WM05	0.86	Valid
WM06	0.81	Valid
Job Performance (PE) :		
PE01	0.69	Valid
PE02	0.95	Valid
PE03	0.75	Valid
PE04	0.77	Valid

Table 2. The Reliability Test Results

Variables	Construct Reliability (CR) (≥ 0.7)	Average Variance Extracted (AVE) (≥ 0.5)	Conclusion
Leadership (LP)	0.90	0.61	Reliable
Compensation (CS)	0.91	0.73	Reliable
Work Motivation (WM)	0.91	0.67	Reliable
Job Performance (PE)	0.87	0.63	Reliable

4. RESULTS

The data analysis employed a Second-Order SEM. The analysis used Linear Structural Relationship (LISREL) 8.80 software series. Figure 1 shows the results of the full SEM test. The full diagram draws a structural relationship of the developed model. Table 3 describes the critical ratio (CR) or t coefficient to make a decision. The hypothesis' critical value is $t \geq 1,96$ ($\alpha 0.05$). Confirmation Factor Analysis evaluation employed Goodness of Fit (GOF). GOF coefficient is as follows: X^2 (Chi-Square) = 320.15, probability = 0.00, degree of freedom (df) = 1.46, Goodness of Fit Index (GFI) = 0.75, Adjusted Goodness of Fit Index (AGFI) = 0.67, Normative Fit Index (NFI) = 0.78, Comparative Fit Index (CFI) = 0.86, Incremental Fit Index (IFI) = 0,86 and Root Mean Square Estimated Approximation (RMSEA) = 0.11. All of the GOF values located in the accepted criterion. The model is significant (Hair Jr, Matthews, Matthews, & Sarstedt, 2017).

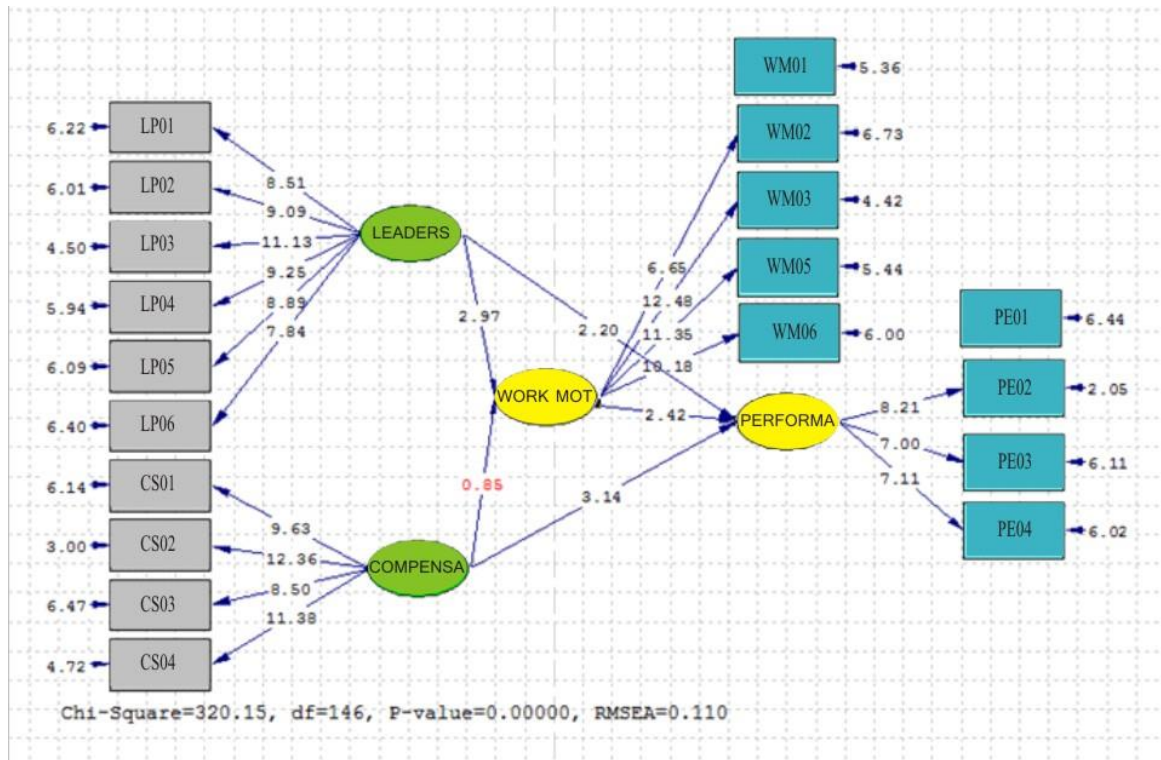


Figure 1. t-value of the Full Model Diagram.

Table 3. Standardized Structural Parameters for Estimating Direct Effects: Path Analysis Model

Hypothesis	Structural Path	Path Coefficients	t-Value	Results
1	Leadership → Work Motivation	0.33	2.97	Accepted
2	Compensation → Work Motivation	0.09	0.85	Rejected
3	Leadership → Job Performance	0.23	2.20	Accepted
4	Compensation → Job Performance	0.32	3.14	Accepted
5	Motivation → Performance	0.25	2.42	Accepted

4.1. The effect of leadership on motivation

Leadership significantly affect motivation (t value is $2.97 \geq 1.96$). This research finding is in line with the findings of (Taghipour & Dejban, 2013). The research finding showed that work motivation was strongly related to performance (Müceldili et al., 2013). The empirical findings of the research they did were the value of authentic leadership could improve innovation in work. The research by (Müceldili et al., 2013) described that leadership significantly affects performance. Research by (Văcar & Miricescu, 2013) concluded that the leaders knew that they were agents of change that involved the members on the policy-making and used various awards. Successful organizations are organizations that have qualified and skilful leaders to improve employee performance. The next research (Ciobanu & Androniceanu, 2015) showed

that factors mainly related to daily activities, such as the boss's leadership style, influenced civil servants' work motivation (Syafii et al., 2015).

4.2. The influence of compensation on work motivation

Compensation does not affect work motivation (t value is $0.85 \leq 1.96$). This study's results are inconsistent or contrary to previous research (Adeoye & Elegunde, 2014). They found that compensation and motivation management had been fundamental for the organization. A research finding by (Rizal et al., 2014) showed that rewards significantly affect organizational motivation and commitment. Motivation strongly affects employee performance. (Negash et al., 2014) revealed that rewards significantly affect motivation. Nevertheless, this finding is not in line with the findings of (Njoroge & Kwasira, 2015) and (Khan & Mufti, 2012).

4.3. The effects of leadership on job performance

Leadership significantly affects job performance (t value is $2.20 \geq 1.96$). The finding of this study supports research conducted by Hetland et al. (2018). The analysis results revealed partial support for the hypothesis of transformational leadership positively related to job performance. (Zehir & Erdogan, 2011) believe that leaders affect employee decisions about talking or keep silent. Therefore, leader behavior plays a significant function in the company. Researchers are sure that ethical leadership supports employees more confident to speak and be constructive. Thus, research by (Yuan & Lee, 2011) found that their study's findings were that organizational leadership had a strong influence on job performance. A research finding by (Samad, 2012) revealed that strong leadership and innovation significantly affect performance. The finding also indicated that charismatic leadership and products or services innovation are the most critical factors affecting organizational performance. (Mihalcea, 2014) Furthermore, (Kelidbari et al., 2016) concludes that leadership influences employee performance.

4.4. The influence of compensation on job performance

Compensation significantly influences job performance (t value is $2.14 \geq 1.96$). The finding is in line with the finding of Gungor (2011). He revealed that external compensation significantly influences job performance. Likewise, research by (Njoroge & Kwasira, 2015) showed a strong relationship between compensation and job performance in the Nakuru regional government. They recommend training needs and other non-monetary reward practices to improve performance. (Hameed et al., 2014) found that rewards significantly affect job performance. Research also by (Patrick, 2017), (Fraher et al., 2020) and (Wekesa & Nyaroo, 2013) showed how the compensation influence with overall performance.

4.5. The effects of motivation towards employee performance

Motivation significantly affects employee performance (t is $2.42 \geq 1.96$). This finding supports the findings of (Güngör, 2011), who found that both external and internal extrinsic and internal motivation significantly influence performance. The finding by (Rizal et al., 2014) showed that organizational motivation influence job performance. Motivation strongly affects

compensation and performance. (Wekesa & Nyaroo, 2013) mention that motivation is a top urgent for leaders. Leaders should improve organizational strategies to develop employees. Ciobanu and (Ciobanu & Androniceanu, 2015) also gave the same results of their research.

4.6. The Direct, Indirect and Total Influence

The coefficient comparison between the direct and indirect influence of leadership and rewards or compensation towards performance through work motivation shows that motivation does not have any role as a mediating variable. Whether or not work motivation functions as a mediation construct, the researchers could identify which is a higher coefficient between direct and indirect effects of each exogenous construct. Leadership has a more substantial direct influence (0.23) on job performance than the indirect impact through work motivation (0.08). Compensation has a more substantial direct effect (0.32) on performance than the indirect impact through work motivation (0.03). It means that leadership is not the mediating variable. The findings showed that leadership and compensation directly increase performance without the function of job motivation. The path of leadership through job motivation has a more powerful total effect (0.55) than the path of compensation through work motivation (0.24).

5. DISCUSSION

The most effective effort to enhance the job performance of funding and lending co-operatives in Palembang is increasing work motivation and strong leadership. The managerial implication of enhancing employee performance is by increasing leadership with various efforts: employee involvement in decision-making, carrying out a participative and effective manner, giving freedom and responsibility, and assigning tasks independently without coercion. Other attempts to improve leadership can be through more consulting subordinates in making decisions and not imposing a will. The results also revealed that motivation significantly affects work motivation, and leadership also influence work motivation. This path has a higher coefficient of the total effect. So, employee performance enhancement is best through improving leadership and work motivation. Meanwhile, compensation does not affect job's motivation, but directly improves employee performance. The managers of the co-operatives' business in Palembang have to consider applying all independent variables in an integrated manner to improve their employees' performance.

6. CONCLUSION AND SUGGESTIONS

Leadership significantly influence job motivation and performance. Compensation does not affect work motivation, but compensation significantly influences performance. Work motivation significantly influences employee performance. Work motivation does not mediate the influence of leadership as well as compensation toward job performance. The most significant total impact is the effect of leadership on job performance through the path of motivation.

The findings recommend that leaders should motivate their subordinates through various learning techniques about the co-operatives' movement to improve employee performance. The

involvement of subordinates in making decisions, and establishing good relationships is essential. Co-operatives' managers should improve the capability of interpersonal communication with employees, work partners, and other businesses. The managers have to consider of giving attention to non-financial rewards such as health insurance, rewards to outstanding managers, and financial compensation such as bonuses and family allowances and other benefits. To increase members' trust, it requires managers' high motivation efforts. Co-operatives managers should also improve knowledge about co-operatives good corporate governance. The next research agenda in this area is adding co-operatives culture as an additional variable to the model since the negative stigma is still strongly associated with the co-operatives saving and loan.

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