

Leadership Behavior and Compensation on Employee Satisfaction and Performance

Abdul Karim¹

¹Doctoral Program, Graduate Program, University of Muslim Indonesia, Makassar, South Sulawesi Indonesia

Salim Basalamah², Roslina Alam³, Mapparenta⁴

^{2, 3, 4} Graduate Program, University of Muslim Indonesia, Makassar, South Sulawesi Indonesia

ABSTRACT

The purpose of this study was to analyze the effect of leadership behavior and compensation to employee satisfaction and performance.

The experiment was conducted at the Government of the District of Sinjai, South Sulawesi Province with a total sample of 200 respondents by the Sovin formula. Methods of data analysis used Structural Equation Model using AMOS Program 18.

The results showed that transformational leadership directly has significant and positive effect on satisfaction. Transformational leadership oriented vision, mission, hopes, intelligence and attention has been applied, but not significant employee satisfaction. Transformational leadership directly has not significant and positive effect on performance. Applied transformational leadership has been unable to achieve the maximum performance input, process, output and outcome. Transformational leadership indirectly has not significant and positive effect on performance through satisfaction. Compensation has significant and positive effect on performance. Compensation received by employees as a reward that contributes in improving the performance of the appropriate input, process, output and outcome.

KEYWORDS: Leadership behavior, compensation, employee satisfaction, performance

Date of Submission: 18 June 2015



Date of Publication: 5 July 2015

I. INTRODUCTION

A rapidly growing concept of leadership is the concept of transactional and transformational leadership popularized by Bass in 1985 (Locander, 2002). Transactional leadership is very important and necessary in the organization because it can provide direction, explains the expected behavior, and reward or punishment which allows can affect employee performance. While the organization also require vision and encouragement formed by transformational leadership. The real essence of transformational leadership is a leader directing followers to do more than expect and followers know and believe that the leaders will not take advantage of them.

According to Hasibuan (2011) that leadership is the way of a leader to influence the behavior of the employees, in order to cooperate and work productively to achieve organizational goals. For that reason, a leader is required to have the ability to provide comfort to his employees in order to work properly. However, according to Howell and Costley (2006) several current leadership issues do not demonstrate good leaders. Some of these issues include leader's diversity, fairness and ethics, leader development and change and transformational leadership. One of the factors associated with high and low employee performance is compensation (Wiryanto, 2004: 11). While

Handoko (2001: 155) state that in a company, compensation is one form of motivation to improve employee performance.

Indonesian Act Number 32, issued 2004 on local government autonomy explain that the implementation of regional autonomy aims to improve the quality of public services and the welfare of the community, creating efficiency, and effectiveness of human resource management, as well as empowering and creating a space for people to participate actively in the process development. to make it happen, the necessary bearing capacity of government officers are reliable, capable, and has competence in order to carry out various duties and functions entrusted to the government. The carrying capacity can be realized when the wheels of government are managed and executed by a relatively leader who can be the inspiration to push the capabilities of personnel resources, providing motivation to work optimally, and behave in good working order to improve organizational performance.

Related to the conduct of local government, the region in the form of organization is characterized by the presence of government affairs under the authority of the area. With changes in governmental affairs division terminology that is congruent, then the institutional implementation can be accommodated by the functions of government at all levels of government in accordance with the mandate of the Government Regulation No. 41 Year 2007. The implementation of these regulations at local government of Sinjai related to administrative matters under its authority, set through the South Sulawesi Provincial Regulation No. 10 issued 2009.

Performance is defined as the result from a person's effort which achieved by the presence of effort, ability and task perception (A. Bryman, 1992). According to S. P. Robbins (2002) employee performance are notes of achievements which resulted from a certain task in a certain period of time.

Transformational leadership is generally tried to compare the outcome of transformational leadership and transactional such as performance and how effective is an organization. According to T. A. Judge, J. E. Bono, and E. A. Locke (2000) a research on leadership usually stresses more on transformational leadership. A research in this field has been well-conducted in finding the right concept on the effective style of leadership and also contextual terms that should be created so the process can be done effectively (U. R. Dumdum, K. B. Lowe, and B. J. Avolio, 2002; B. J. Zhu, W. Koh, and B. Puja, 2004)

In researches by Yukl and Latham, 1976 suggests that the incentive wage/salary does not give consistent results on the performance of the employees. To realize the good performance of the agency will require the leadership to inspire, improve job satisfaction and employees performance.

The purpose of this study was to analyze the direct influence of transformational leadership, transactional and compensation for satisfaction, analyze the direct effect of transformational leadership, transactional and compensation to performance, analyze the direct effect of satisfaction on the performance, and analyze the indirect influence of transformational leadership, transactional and compensation to performance through satisfaction

II. LITERATURE REVIEW

Riaz and Haider (2010) in their study conducted to determine the impact of transformational and transactional leadership style on job success and career satisfaction. Transactional leadership has significant related to job success while transformational leadership and job success are found highly related with career satisfaction. The regression analysis results that job success is more dependent on transformational and transactional leadership as compared to career satisfaction.

The idea of transformational leadership model is developed by James MacGregor Burns which had applied this model on political context and continuously shaped and introduced into organizational context (R. Eisenbach, K. Watson, and R. Pillai, 1999). It is believed that transformational leadership can be directed to superior performance in an organization that faces renewal and transformation demands. Transformational leadership tries to create conducive climates for the development of innovation and creativity. The difference of opinion is often seen as common phenomenon. The leaders urge their subordinates to create new ideas and creative solutions for the problems they have. For that matter, subordinates are highly involved and made efficient in problem and solution formulating processes. Individual attention that has been done by a transformational leader is a one of the reason that the leaders have the ability to build trust and respect to motivate their subordinates to exceed expectation (B. J. Avolio and B. M. Bass, 1994)

The findings on empirical studies and meta analysis show that there is an involvement between employees with transformational leadership such as: satisfaction on their organization and behavior (J. Barling, T. Weber, and E. K. Kelloway, 1996; F. O. Walumbwa, P. Wang, J. J. Lawler, and K. Shi, 2004).

Nielsen, et al., [2009) found positive relationship between transformational leadership and job satisfaction in the healthcare sector. The study was conducted to examine two possible psychological mechanisms that link transformational leadership behaviors to employee job satisfaction.

Furthermore, leadership variables used in this study is transformational leadership and transactional leadership. Transformational leadership according to Burns (2007) defines the transactional leadership is leadership that motivates subordinates or followers to his personal interests. While transactional leadership according to Metcalfe (2000) transactional leader must have clear information about what is needed and wanted by his subordinates and should provide constructive feedback to maintain subordinate to the task. on a transactional relationship, promising leader and to reward good performers subordinates, as well as threatening and disciplining subordinates who perform poorly.

To measure the transformational leadership variable measuring apparatus, namely: (1) the vision and mission; (2) communicate high expectations; illustrates the important purpose in a simple (3) encourage intelligence, rationality and problem solving are carefully; (4) provide personal attention, serving as individual, train and mentor (Stephen P. Robbins; 2007). While transactional leadership variable measuring tool to select the indicators, namely: Wages contract (Contingent reward) (Djoko Widodo, 2010).

Attempts to improve the performance of employees one of which is the provision of compensation. An organization must continually provide motivation for the performance of employees nurtured well. Variable compensation is measured by: 1) a direct financial payments in the form of salaries, wages, incentives, and the payment is not directly in the form of benefits such as insurance and vacation money; 2) Active management by exception; 3) Passive management by exception; 4) Removing responsibilities, avoiding decisions (Dessler, 2000).

With the compensation given by the leadership to employees as a reward for his efforts then of course there is satisfaction scores received by the employee against the amount of compensation obtained. According Mangkunagara (2001), job satisfaction is a feeling of self-supporting or not supporting employee or employees associated with work and with her condition.

To measure job satisfaction of employees, the indicator of employee satisfaction or dissatisfaction can be demonstrated by several aspects include: 1. The number of employee presence or amount of absenteeism.,2. The feeling happy or not happy in carrying out the work, 3. Feelings fair or unfair in receiving rewards, 4. Like it or not the post he held, 5. Attitude reject or accept a job with full responsibility, 6. The level of motivation of the employees are reflected in the behavior of the job, 7. positive or negative reactions to the policy of the agency (Mangkunagara, 2001)

The juridical basis which refers to the Indonesian Government Regulation No. 46 of 2011 which says that the performance is the work achieved by each civil servant in accordance with the target organizational unit employee and work behavior. While the targets are employee work plans and targets to be achieved by a Civil Servant. Furthermore, also emphasized that employee performance is the level of achievement of work on the implementation of activities which are reflected in the duties and functions of employees and work plan which is its responsibility as civil servants are measured through indicators of inputs, processes, outputs, and outcomes. Consistent with the objectives of the study, four hypotheses were developed for testing:

- H1 : There is a positive effect between transformational leadership on employee satisfaction.
- H2 : There is a positive effect between transactional leadership on employee satisfaction .
- H3 : There is a positive effect between compensation to employee satisfaction.
- H4 : There is a positive effect between transformational leadership on performance
- H5 : There is a positive effect between Transactional leadership on performance
- H6 : There is a positive effect between compensation on performance
- H7 : There is a positive effect between employee satisfaction on performance
- H8 : Transformational leadership has significant and positive effect on performance through satisfaction
- H9 : Transactional leadership has significant and positive effect on performance through satisfaction.
- H10: Compensation has significant and positive effect on performance through satisfaction.

III. CONCEPTUAL MODEL

A conceptual model is presented for illustrative purposes in Figure 1. It represents the proposed relationship between latent constructs: leadership behavior, compensation, employee satisfaction and performance. In purpose to reveal the influence of leadership behavior and compensation to employee satisfaction and performance.

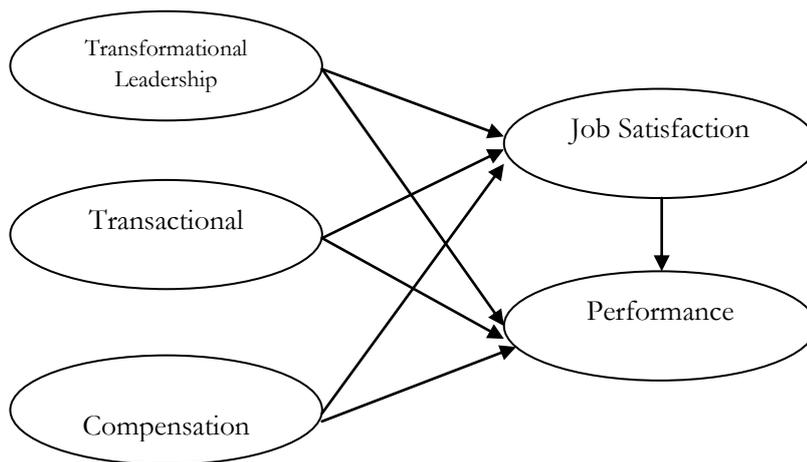


Figure 1. Conceptual model

IV. METHODOLOGY

The population in this study was all civil servants in the Government of the District of Sinjai which includes 44 regional work units, the number of employees as many as 5,895 people. The sampling technique used in this study was Multi-Stage Stratified Random Sampling. To determine the sample size of the study population with the number of civil servants as many as 5,895 people are distributed in each of the Regional Task Force (SKPD), will be determined amount of the sample as a whole with the approach Yamahe in Ferdinand (2006) using the formula Slovin. So the respondents in this study as many as 357 people. However, during the study, respondents who returned the questionnaire only 200 respondents were subsequently determined as the samples were processed using SEM analysis.

To process the data from this study used two techniques: first analysis descriptive statistical analysis is used to illustrate or provide a picture or description of empirical data collected in the study (Ferdinand, 2006). Descriptive statistical analysis is used to describe the characteristics of the respondents to present the frequency distribution, percentage, and a histogram graph. It is intended to describe the characteristics of survey respondents score for variable transformational and transactional leadership, compensation, employee performance and employee satisfaction. Calculations in the descriptive statistical analysis carried out with the using AMOS program package SPSS version 16.0 and 15.0 (Ghozali, 2008).

V. ANALYSIS AND RESULT

Based on the method of determining the value in the model, the first model testing variables are grouped into exogenous variables and endogenous variables. Exogenous variables are variables whose value is determined outside the model. While the endogenous variable is a variable whose value is determined by an equation or model of the relationship established. Included in this group are the exogenous variables measuring transformational leadership, transactional leadership and compensation, while those classified as an endogenous variable is job satisfaction and employee performance.

Based on empirical models proposed in this study can be tested against the hypothesis by testing the path coefficients in the structural equation model. Table 26 is testing the hypothesis by looking at the p value, if the p value less than 0.05 then the relationship between significant variables. It also describes the direct influence means that there is a direct positive influence between the variables, the indirect effect means that there is a positive influence indirectly between variables, and the total effect is the accumulation of direct influence and indirectly. The test results are presented in the following table:

Table 1
Hypothesis Testing Direct Effect, Indirect Effect and Total Effect

No.	Independent Variable	Dependent Variable	Direct Effect			
			Standardize	CR	P-value	Decision
1	Transformational Leadership (X1)	Employee Satisfaction (Y1)	0.109	0.974	0.330	Not Significant
2	Transactional Leadership (X2)	Employee Satisfaction (Y1)	0.180	1.985	0.047	Significant
3	Compensation (X3)	Employee Satisfaction (Y1)	0.349	3.060	0.002	Significant
4	Transformational Leadership (X1)	Performance (Y2)	0.252	2.627	0.000	Significant
5	Transactional Leadership (X2)	Performance (Y2)	0.300	3.543	0.000	Significant
6	Compensation (X3)	Performance (Y2)	0.278	2.883	0.004	Significant
7	Job Satisfaction (Y1)	Performance (Y2)	0.622	4.518	0.000	Significant

Indirect Effect					
Independent Variable	Intervening Variable	Dependent Variable	Standardize	P-value	Decision
8. Transformational Leadership (X1)	Employee Satisfaction (Y1)	Performance (Y2)	0.268	0.000	Significant
9. Transactional Leadership (X2)	Employee Satisfaction (Y1)	Performance (Y2)	0.112	0.000	Significant
10. Compensation (X3)	Employee Satisfaction (Y1)	Performance (Y2)	0.217	0.004	Significant

Of the overall model, there are three lines have a significant influence. The interpretation of Table 1 for the direct influence can be explained as follows:

Transformational leadership has a positive and significant effect on job satisfaction at $p = 0.330 > 0.05$ and the value of the direct influence of 0109. Transactional leadership has a positive and significant impact on job satisfaction at $p = 0.047 > 0.05$ and the value of the direct effect of 0.180. Compensation has a positive and significant impact on job satisfaction at $p = 0.002 > 0.05$ and the value of the direct influence of 0349. Transformational leadership has a positive and significant impact on employee performance with $p = 0.000 > 0.05$ and the value of the direct influence of 0252. Transactional leadership has a positive and significant impact on employee performance with $p = 0.000 > 0.05$ and the value of the direct effect of 0.300. Compensation has a positive and significant impact on employee performance with $p = 0.004 > 0.05$ and the value of the direct effect of 0.278. Job satisfaction has a positive and significant impact on employee performance with $p = 0.000 > 0.05$ and the value of the direct influence of 0622.

Transformational leadership has a positive and significant impact on employee performance through job satisfaction and value for the indirect effect of 0268 with $p = 0.000 < 0.05$. Transactional leadership has a positive and significant impact on employee performance through job satisfaction and value for the indirect effect of 0112 with $p = 0.000 < 0.05$. Compensation has a positive and significant impact on employee performance through job satisfaction and value for the indirect effect of 0217 with $p = 0.004 < 0.05$.

The findings of this study consist of : Transformational leadership directly has not significant and positive effect on satisfaction. Transformational leadership oriented vision, mission, hopes, intelligence and attention has been applied, but not significant employee satisfaction Transformational leadership directly positive and significant impact on performance. Applied transformational leadership is able to achieve maximum performance both input, process, output and outcome. Transformational leadership is indirectly positive and significant impact on performance through satisfaction. Transformational leadership applied already meets the satisfaction and improve employee performance, thus providing a significant influence indirectly. Compensation directly has significant and positive effect on performance. Compensation received by employees as a reward that contributes in improving the performance of the appropriate input, process, output and outcome

VI. CONCLUSION

Based on the analysis of the results of research and discussion, summarized as follows:

Transformational leadership has significant and positive effect on satisfaction. Transformational leadership oriented vision, mission, hopes, intelligence and attention has been applied, but not significant employee job satisfaction; Transactional leadership and significant positive effect on satisfaction. Transactional leadership is based on wage contracts, exclusion of active and passive management as well as the release of responsibility are able to meet employee job satisfaction.

Compensation has significant and positive effect on satisfaction. Compensation in the form of direct financial payments and indirect been granted and provide satisfaction for employees. Transformational leadership positive and significant effect on performance. Applied transformational leadership has been able to achieve maximum performance both inputs, processes, outputs and outcomes. Transactional leadership and significant positive effect on performance. Transactional leadership applied to contribute to the execution of the activities run smoothly, a smooth process activities, the activities carried out according to plan and the achievement of the work.

Compensation has significant and positive effect on performance. Compensation received by employees as a reward that contributes in improving the performance of appropriate inputs, process, outputs and outcomes. Satisfaction has positive and significant effect on performance. Satisfaction over the level of employee attendance, fairness in receiving rewards, suitability positions held, was pleased with the work that occupied, motivated to work, and show a positive reaction to the discretion of the agency to contribute to the improvement of employee performance;.

Transformational leadership has significant and positive effect on performance through satisfaction. Applied transformational leadership has met the satisfaction and improve employee performance, thus providing a significant influence indirectly.

Transactional leadership has significant and positive effect on performance through satisfaction. Transactional leadership has implemented satisfaction and improve employee performance, thus providing a significant influence indirectly.

Compensation has significant and positive effect on performance through satisfaction. Compensation received has met the satisfaction and improve employee performance, thus providing a significant influence indirectly.

VII. RESEARCH LIMITATION AND FUTURE STUDY

The major limitations of this study revolve around sampling issues as this study does not focus on specific target group and the questionnaires were only able to be distributed randomize to the employees of government sector in Sinjai, South Sulawesi Province. As a result, it may have affected the current results. Furthermore, most of the respondents are confused over the transformational and transactional leadership and this might have affected some of the relations studied.

For the future study, the researchers should focus on other organizations either on private or government sectors in other states in Indonesia instead of Sinjai, South Sulawesi Province. In addition, the future research also should include both questionnaires and depth interview session together in this study as it will provide more comprehensive outcome.

REFERENCES

- [1] B. J. Avolio and B. M. Bass, *Improving organizational effectiveness through transformational leadership*, California: Sage, 1994.
- [2] Bryman, *Charisma and Leadership in Organization*, London : Sage Publications, 1992.
- [3] Burns, T., 2007. *Lecture Notes Dermatologi*. Jakarta: Penerbit. Erlangga
- [4] Hasibuan, Malayu S. P. (2011). *Manajemen Sumber Daya Manusia*. Edisi Revisi Jakarta: Bumi Aksara.
- [5] Dessler, G, 2000. *Human Resources Management*, Upper Saddle River, Prentice Hall, New Jersey.
- [6] Faturrahman, 2011. *Manajemen Sumber daya Manusia*. Yogyakarta, Universitas Gajahmada.
- [7] F. O. Walumbwa, P. Wang, J. J. Lawler, and K. Shi, "The role of collective efficacy in the relations between transformational leadership and work outcomes," *Journal of Organizational and Occupational Psychology*, vol. 77, pp. 515-530, 2004.
- [8] Handoko, T. Hani, 2001, *Manajemen Personalia dan Sumber Daya Manusia*, Penerbit Andi ,Yogyakarta
- [9] Howell, J.P. and D.L. Costley, 2006. *Understanding, Behaviours for Effective Leadership*. Second Edition. Upper saddle River, New Jersey: Prentice Hall.
- [10] J. Barling, T. Weber, and E. K. Kelloway, "Effects of transformational leadership training on attitudinal and financial outcomes: A field experiment," *Journal of Applied Psychology*, vol. 81, pp. 827–832, 1996.
- [11] Kotter, 2003. *Manajemen ... Panduan Riset Perilaku Konsumen*, Jakarta: PT Pustaka Gramedia. Utama.Yukl, 1998
- [12] Latham G.P and Yukl G.A 1976. Effect of Assign and Partisitative Goal Setting on Performance and Job Satisfaction. *Journal of Applied Psychology* 61, 166-171
- [13] Locander. 2002, "Leader Behaviour Impact on Staff Nurse Empowerment, Job Tension and Work Effectiveness, *Jurnal of Nursing Administration*, No. 5. P. 28-39.
- [14] Luthans. 2001. *The human organization: Its management and value*. New York, NY: McGraw-Hill.
- [15] Mangkunegara, A.A. Anwar Prabu. 2001. *Perilaku dan Prestasi kerja Organisasi*. PT. Refika Aditama – Bandung

- [16] Metcalf dan Eddy, 2000. *Waste Water Engineering*. Mc Graw Hill International Edition Civil Engineering Series. New York
- [17] Muhlis, 2012. *Educational Leadership (Mewujudkan Efektivitas Kepemimpinan Pendidikan)*. Malang: UIN Malang Press.
- [18] Nawawi, 2003. *Manajemen Sumber Daya Manusia*, Edisi Revisi : Bumi Aksara
- [19] Nielsen, K., J. Yarker, R. Randall and F. Munir, 2009. The Mediating Effects of Team and Self-Efficacy on the Relationship between Transformational Leadership and Job Satisfaction and Psychological Well-Being in Healthcare Professionals: A CrossSectional Questionnaire Survey, *International Journal of Nursing Studies*, 4: 1236-1244
- [20] Nurtjahjani. 2008. *Pengaruh Kompensasi Terhadap Kinerja Karyawan Di PT PLN (Persero) APJ*. Jakarta. PT. Bumi Aksara
- [21] R. Eisenbach, K. Watson, and R. Pillai, "Transformational leadership in the context of organizational change," *Journal of Organizational Change Management*, vol. 12, no. 2, pp. 80-89, 1999.
- [22] Riaz, A. and M.H. Haider, 2010. Role of Transformational and Transactional Leadership with Job Satisfaction and Career Satisfaction, *Business and Economics Horizons (BEH)*, 1(1): 56-64
- [23] Robbins, Stephen, 2007, *Perilaku Organisasi*. Terj: Benyamin Molan. New Jersey Prentice Hall, Inc.
- [22] S. P. Robbins, *Organizational Behavior: Contemporary Issues in Leadership*, Prentice Hall Inc, New Jersey, 2002.
- [24] T. A. Judge, J. E. Bono, and E. A. Locke, "Personality and job satisfaction: The mediating role of job characteristics," *Journal of Applied Psychology*, vol. 85, pp. 237-249, 2000.
- [25] Tohardi, Ahmad. 2002. *Pemahaman Praktis Manajemen Sumber Daya Manusia*, Universitas Tanjung Pura, Bandung. Mandar Maju.
- [26] U. R. Dum Dum, K. B. Lowe, and B. J. Avolio, "A meta-analysis of transformational and transactional leadership correlates of effectiveness and satisfaction: An update and extension. In B. J. Avolio & F.J. Yammarino (Eds.)," *Transformational and charismatic leadership: The road ahead*, vol. 2, pp. 35-66, 2002.
- [27] Wiryanto. 2004. *Pengantar Ilmu Komunikasi*. Jakarta: PT.Grasindo
- [28] Widodo, Joko 2010, *Good Governance Telaah Dari Dimensi kuantabilitas, Kontrol Birokrasi Pada Era Desentralisasi Dan Otonomi Daerah*, Insan Cendekia, Surabaya