

# Effect of Leadership Style, Work Motivation and Compensation on Work Ability and Employee Performance

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## **Effect of Leadership Style, Work Motivation and Compensation on Work Ability and Employee Performance**

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### **Abstract**

*The objective of this research was to analyze the effect of leadership style, work motivation and compensation on work ability and employee performance. In this research, the population were administrative staffs who work for a private university in Sorong city. The sampling technique applied census, so the samples were 148 respondents. Thus, the data was collected with personal questionnaire and analyzed using SEM. The results of this research was indicated having an implication on developing theories of leadership styles, work motivation, compensation, work ability, and employee performance.*

**Keywords:** *Leadership, Motivation, Compensation, Ability, Employee Performance*

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### **I. Introduction**

Organization or institution can be defined as a mechanism or media to achieve particular goals. In operating its activities, every organization involves particular customs, working guidelines, and regulations that are agreed by an organizational members. These are generated as an organizational culture that impersonate organizational activities within an institution. The organization also requires adequate human resources to support and run its activities properly. Moreover, good performance of an organization can be achieved from both the organisation structure and the employees as individuals. While the employee performance is one of the benchmarks within an organization or institution progress. Elevating employee performance, however, is not an easy due to various factors. Therefore, particular elements need to be considered by employers to improve personnel performance in an institution.

### **II. Theoretical Review**

#### **Leadership**

Leadership is a driving force for human resources within an organization or a company. According to Bass (2003), transformational leadership is a style of which a leader has power to influence subordinates with particular ways. Moreover, Burns (1978) states that the result of a leadership transformation is involves stimulant and reciprocal development that transforms followers into leaders as well as that can generate leaders as moral agents. Hence, leadership styles can influence an organization performance.

#### **Work motivation**

Work motivation also affects employee performance. Drawing to Wexley and Yukl (2005: 92), motivation is a process whereby one's behavior is driven with energy and direction. In the motivation, there is a direction or a goal to be achieved as well as an energy to be driven by an individual to reach the goal. Hence, Scott (1962) in Gibson et al. (2006: 172) conveys that motivation is a series of encouragement to individuals so they are able to take an action for accomplish their desired goal. Moreover, Stoner et al (2003) state that people have an internal need (inner need) so they tend to keep their excitement in completing their poverty. The people are also motivated to decrease or to accomplish their physical and logical needs. Shortly, motivation lead people acting and behaving in particular ways to achieve their satisfaction.

### **Compensation**

Compensation is the output and benefits received by employees in the form of salaries, wages and other benefits to improve performance (Holt, 1993). Compensation is a reward that is provided by a company to its employees. This can be both financial and non-financial benefit within a fixed period. A good compensation system will be able to provide satisfaction for employees and enable companies to acquire, hire, and retain employees. For companies, compensation is important since it reflects its efforts to maintain and improve its employee welfare. Thus, inadequate compensation may decline job performance, work motivation, and job satisfaction of employees. Deficient compensation may even influence potential employees leaving the company.

### **Work Ability**

Work ability is essential for employee performance. It can be delineated into two understanding. Capability refers to the capacity to show performance through a particular task, function, role or activity. While, ability is a trait (inherent within a human being) that can be learned. Ability also enables a person to perform his or her action, mental work, and physical work. Accordingly, Rougoors et al. (2011) state that work ability is the occupancy of appropriate personal characteristics and skills, including desires and motivations, abilities and skills, and biographies. These are to solve problems and to address opportunities that exist at the right time and in the right way. Furthermore, the managerial skills refer to the skills or competence that are relevant to work skills (Gie, 2009).

### **Employee Performance**

Each employee has different performance between one and another. Referring to Tika (2001: 121), employee performance can be influenced by two factors. First is internal factor that consists of intelligence, skill, emotional stability, motivation, role perception, family condition, physical condition, and workgroup characteristics. Second is external factors that consists of labor regulations, customer desires, competitors, social values, trade unions, economic conditions, workplace changes, and market conditions.

Moreover, employee performance requires a supervision in the company as well as in the government. In other words, supervision is an assessment of employee performance. Performance appraisals are very useful for the organization and for the progress of employees themselves. Organizations need high-performing individuals to meet goals, and ultimately to achieve competitive advantage. Performance is also important for individuals. According to Saikh et al (2017), employee performance is recognized as employee performance in the workplace. This is an important component in organizational success. Dahkoul (2018) states that employee performance is the result obtained from the skills, efforts, and abilities of all employees in organizational productivity that lead to management goals

### **Leadership and Work Abilities**

Leadership is considered having an influence to an employee's work ability. For example, Young in Kartono (2003: 98) provides an argument that leadership is able to encourage others to do a job. In particular, he conveys that the form of domination is identified as a personal ability that can pursue others to do something based on their voluntary acceptance. Leadership can be described as a special skill for special situation in which appropriate task can be accepted by others. Basically, leadership and work skills are closely related to one's attitude toward a particular psychological object. Attitude becomes an important consideration on work ability. It also occupies a neutral position in the process of changing job requirements. This means that different attitudes of employees can lead for different interpretation for managerial leadership or supervisor aspect. Thus, this research proposed the first hypothesis as follow:

H1 : Leadership style affects employees' work ability.

### **Leadership Style and Employee Performance**

Every leader has his or her own leadership style. Effective leaders are those who recognize and maintain the important strengths within an organizational group as well as who are flexible in implementing their strategic approaches to maximize employee performance. Hafidulloh et al. (2017) state that the style of transformational leadership affects employee performance. Through leadership style, the leaders should have responsibility to create condition and stimulant to improve performance by motivating their employees to achieve the planned goals. Hence, this research proposed the second hypothesis as follow:

H2 : Leadership style affects employee performance.

### **Motivation and Work Ability**

Motivation of employees may have an impact on their ability to work. Previous studies find that the higher degree of motivation indicates positive work ability. The increasing motivation leads someone having an

affection to reconstruct his and her weaknesses as well as to resolve unexpected attitudes and actions. People having positive motivation tend to provide good impact on their possessed ability. Therefore, this research proposed the third hypothesis as follow:

H3 : Work motivation affects employee's work ability.

#### **Motivation and Employee Performance**

Motivation is described as the series of encouragement of a person who take action to achieve the desired goals (Scott, 1962 in Gibson et al. 2006). The person who has high motivation will voluntarily work hard to gain the expected goals. Moreover, the person will fix his or her deficiency in order to complete what is perceived in the workplace. Hence, this research proposed the fourth hypothesis as follow:

H4 : Work motivation affects employee performance.

#### **Compensation and Work Ability**

Compensation and work ability have a very close relationship. Although compensation is not the only one actor that affects the employee's ability to work, it is believed that compensation is an important factor in generating or improving the ability of employees. Furthermore, this research proposed the fifth hypothesis as follow:

H5 : Compensation affects employee's work ability.

#### **Compensation and Employee Performance**

Basically, employees work for a compensation. In the workplace, they sell their potential energy, including physical capacity and intellectual performance. Then, the employees receive remuneration in accordance with the applicable regulations within an organization. The amount of compensation reflects an employee's status, recognition, and level of needs fulfillment that are appreciated by employees and their families. To this extent, Aritonang (2005) states that the given compensation to employees is very influential on the level of employees work performance. Furthermore, this research proposed the sixth hypothesis as follow:

H6 : Compensation affects employee performance.

#### **Work Ability and Employee Performance**

Working ability is a knowledge, skill, and behavioral attitude that can make the job more effective. To achieve particular organizational objectives should be determined by employees efficiently. In other words, the ability to work can also mean an effort in mobilizing the available human resources to engage within a program or activity in order to achieve the arranged goals. If the employee's ability is increasing, so the employees performance will be increase as expected.

H7 : Working ability affects employee performance.

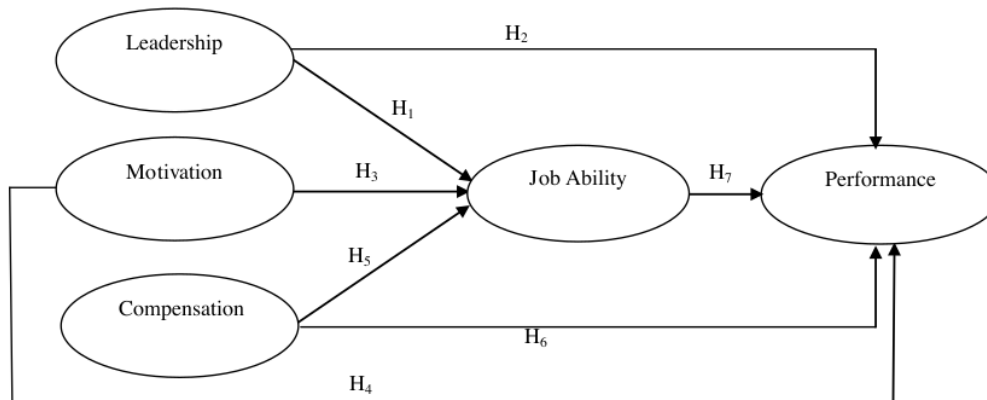


Figure 1: Conceptual Framework

#### **Research methods**

In this research, the population were administrative employees who work in a private university in Sorong city. The sampling technique applied census so the samples taken were all members of existing population. There were 148 employees as research participants. Moreover, the data collection of this research used personal questionnaire; and data analysis used SEM.

**Research result**

This research aimed to analyze the effect of leadership style, work motivation and compensation on work ability and employee performance. The following are the results of SEM testing with SEM coefficients value or standardized of each variable:

**Table 1**  
**SEM Coefficient Value Influence Between Variables**

Causality Relationship	Direct effect	Indirect Effect	Total Effect
X <sub>1</sub> → Z	0.025	-	0.025
X <sub>2</sub> → Z	0.467	-	0.467
X <sub>3</sub> → Z	0.219	-	0.219
Z → Y	0.501	-	0.501
X <sub>1</sub> → Y	0.087	0.025 x 0.501 = 0.013	0.087 + 0.013 = 0.100
X <sub>2</sub> → Y	0.186	0.467 x 0.501 = 0.234	0.186 + 0.234 = 0.420
X <sub>3</sub> → Y	0.228	0.219 x 0.501 = 0.110	0.228 + 0.110 = 0.338

Note 1  
X<sub>1</sub> : Leadership style                      Z : Work Ability  
X<sub>2</sub> : Work Motivation                      Y : Employees Performance  
X<sub>3</sub> : Compensation

**Tabel 2.**  
**Causality Test Regression Weight**

Causality Relationship	Hypothesis	Std. Estimate	SE	CR	P value	Notes
X <sub>1</sub> → Z	H-1	0.025	0.080	0.275	0.784	NS
X <sub>1</sub> → Y	H-2	0.087	0.088	1.130	0.258	NS
X <sub>2</sub> → Z	H-3	0.467	0.074	4.362	0.000	Sign
X <sub>2</sub> → Y	H-4	0.186	0.084	2.021	0.043	Sign
X <sub>3</sub> → Z	H-5	0.219	0.077	2.202	0.028	Sign
X <sub>3</sub> → Y	H-6	0.228	0.085	2.705	0.007	Sign
Z → Y	H-7	0.501	0.168	3.895	0.000	Sign

**III. Discussion**

Leadership and work ability is in relation to a person's personality and attitude. This study indicated that these variables became an important consideration in determining the employee's work ability. While, the attitude of employees could be diverse so each may have different interpretation about leadership. Especially for the leaders who felt superior might lead their employees feeling quite hard to engage at the workplace.

Moreover, the significance of employee performance can be viewed from their work results in an organization. The performance can be in relation to authorities and responsibilities among group of people within an organization. It also refers to an effort to achieve the organizational objectives legally and unlawfully with moral and ethical manners (Sedarmayanti 2007: 260). Therefore, human resources within an organization should play a role in analyzing and helping each other to fix problems in achieving a better performance. This study argued that the broader matters were in regard with the role of the human resource unit within an organization. The unit was greatly depended on what the upper management expected, such as: management function and human resource management activities. Indeed, these had to be evaluated and arranged so that the employees could contribute more on the competitive performance of their organization and of themselves as individuals at the workplace (Robbins 2003; 82). Then, this research suggested that the work results performed by employees had to be considered as an important contribution to the company. In turn, such consideration would improve the company quality and bring greater benefits in the future.

In this research, few participants accepted the centered type of leadership in the university. However, most of the participants were hesitant to accept or to refuse the leadership style. Accordingly, this study found

that leadership factor did not significantly improve the employee's work abilities. Clearly, the success or failure of an organization was largely determined by the quality of leadership possessed by those who are in charge of the organization unit. A good leader is someone who does not carry out operational actions himself, but who makes the decisions and hands over the policies to his sub-ordinates to carry out the outlined decisions. Besides, good leadership is merely not enough to ensure that an employee can motivate himself to be more actively working optimally. Otherwise, effective leadership requires a policy of remuneration from the organization. In particular, compensation is one of the implementation of human resource management functions. The compensation is referred to the employees' individual awards as the exchange for their organizational tasks accomplishments.

#### IV. Conclusion

This research investigated and analyzed the effect of leadership style, work motivation and compensation on work ability and employee performance. As the results, this study found that work motivation and compensation variables had a positive and significant effects on employee's work ability; that the work motivation and compensation variables had positive and significant effect on performance; and that the work ability variable had positive and significant effects on performance.

Furthermore, this study indicated that leadership style did not have a significant effect on the performance of employees, either directly or indirectly through work ability mediation. Instead, the employees' work motivation could directly affect employee performance. Their motivation indirectly affected performance through the mediation of work ability. Creating highly motivated administrative employees could be primarily done by improving employees' analytical and optimistic skills.

In addition, this research evidenced that employee's compensation directly affected performance; but this indirectly affected performance through the mediation of work ability. In other words, the highly compensated employees could directly improve their performance and would have good work skills. Hence, their performance would also increase. So, building a good compensation system could be primarily done by regulating the amount of incentives and benefits which had to be adjusted to the level of education, years of service, and productivity.

In conclusion, the results of this research brought a theoretical implication that work motivation and compensation had affect in improving work ability and advancing performance of administrative officers at a private university of Sorong City. However, the affect of leadership style was not significant to elevate employee performance. Moreover, work ability had an effect on employee performance; and the highly motivated employees tended to have high performance as well.

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