

# The Effect Of Transformational Leadership And Competence On Performance Through Compensation As An Intervening Variable

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## **Abstract.**

*This study aims to determine and analyze the influence of leadership and competence on employee performance, locus of study at Bapedalitbangda Pangkalpinang City, with a total of 53 respondents. Data collection was carried out by distributing questionnaires, with data processing techniques using the PLS SEM model. From the test results, it was found that leadership style has a positive and significant effect on performance and compensation. Compensation has a positive and significant effect on performance, but competence has a positive but not significant effect on performance. Compensation has a positive but not significant effect on compensation. The effect of leadership style on performance with compensation as an intervening variable has a positive and significant effect, and the effect of competence on performance with compensation as an intervening variable shows positive results but not significantly. In improving the performance of Bappedalitbangda Pangkalpinang City employees, it is better to pay more attention to leadership style, increase competence, improve compensation so that it has a significant influence in improving employee performance according to performance evaluation and their respective duties and functions.*

**Keywords:** Leadership Style, Competence, Compensation and Performance.

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## **I. INTRODUCTION**

Improving employee performance will bring progress for the company to be able to survive in an unstable competitive business environment. Therefore, efforts to improve employee performance are the most serious management challenges because success in achieving goals and the survival of the company depends on the quality of the performance of the human resources in it. Employees are required to be able to complete their duties and responsibilities effectively and efficiently. Employee success can be measured through customer satisfaction, reducing the number of complaints, and achieving optimal targets. One of the factors that influence employee performance is leadership (Susanto, 2010). In accordance with the fact that the high or low level of a person's performance will greatly depend on the leadership in the company. In an organization, leadership has considerable influence on the interests of the company and the organization to achieve goals that have been set. A leader must be able to use all the resources owned by the company effectively and efficiently so as to facilitate the achievement of the company's goals. In addition, competence is said to be one of the factors that affect performance. Competence is needed to help organizations to create a high-performance culture. The number of competencies used by human resources will improve performance (Wibowo, 2012: 323). Sriwidodo and Haryanto (2010) expressed their opinion that the performance and effectiveness of employees in carrying out their duties are largely determined by the competencies required by the field of work. Ley, et al. (2007) states that if individual competence is in line with organizational competence, then organizational goals can be achieved effectively.

Winanti and Budhiningtias (2011) in their research concluded that competence affects employee performance. Research conducted by Qamariah and Fadli (2011) also obtained research results that competence has a significant and positive influence on performance. Suprpto (2009) in his research stated that competency has a significant and positive effect on employee performance. Leadership, competence, and compensation are factors in improving employee performance in a company. Good performance improvement will bring progress to the company so that the planned goals can be achieved. Previous research conducted by Mariam (2009) showed that leadership style and organizational culture affect

employee performance through employee job satisfaction. Research conducted by Rahman, Lely, and Soleh (2014) shows that competency and leadership have a significant effect on employee performance through motivational variables. Research conducted by Prasetyo (2014) shows that leadership style and compensation have a significant effect on employee performance through job satisfaction variables. Research conducted by Susanto (2010) shows that leadership and work culture have a significant effect on employee performance through motivational variables. Research conducted by Pribadi and Harjanti (2014) shows that work performance appraisal through compensation as an intervening variable has a significant effect on work motivation so compensation is not the variable that mediates between work performance appraisal and work motivation. The purpose of this study was to determine and analyze the influence of leadership and competence on employee performance at Bapedalitbangda Pangkalpinang City, and to analyze how leadership and competence are mediated by employee compensation.

## II. METHODS

This type of research is survey research using a quantitative approach, in which data analysis is carried out in this study by performing statistical calculations. The research design is an explanatory type, namely explaining the causal relationship between variables through hypothesis testing. The objects in this study are Bappedalitbangda employees in Pangkalpinang City in 2022. Employees will be examined regarding their performance, and compensation received, as well as an assessment of the leadership style and competence of these employees. Employee performance is the behavior of employees in carrying out their duties which will produce certain achievements as an outcome. To improve employee performance, the company will try to provide certain efforts to increase employee motivation. Compensation is a motivator that is often used by companies to improve employee performance. On the other hand, it will also be seen the influence of the perceptual leadership style and competence of the employee. The type of investigation in this study is a causal study because this research was conducted to determine the direct or indirect effect of a variable related to its relationship to other variables. This study will use a non-contrived setting, that is, the researcher will examine the natural environment of an object by causing minimal disturbance to the natural environment of the object under study (Sekaran & Bougie, 2010).

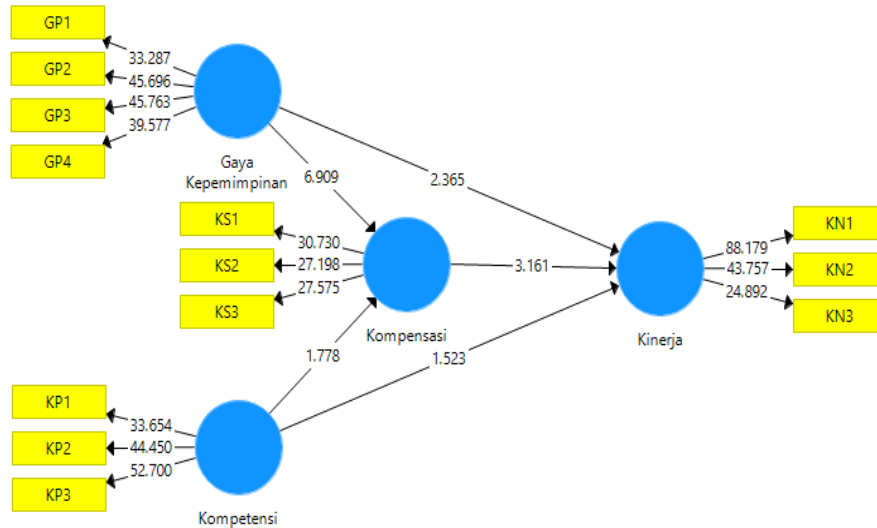
Through this method, the researcher does not create certain settings for the object's natural environment to examine a variable. The data used in this study is primary data, and the data collection technique used is through surveys. A survey is a technique in which the researcher distributes questionnaires containing questions related to the variables that are the topic of the research to be answered by the respondents. Questionnaires will be distributed directly to the respondents. The type of questionnaire method that the author uses is a closed questionnaire. A closed questionnaire is a questionnaire that is presented in such a way that the respondent is asked to choose an answer that is in accordance with his opinion by giving a cross (x) or (v). This method is used to obtain data for each variable to determine the effect. Analysis of the data used in the study of literature using descriptive analysis. Data Analysis Techniques Data analysis was carried out using the Partial Least Square (PLS) method using SmartPLS version 3 software. PLS is a method of solving Structural Equation Modeling (SEM) which in this case is more compared to other SEM techniques. SEM has a higher degree of flexibility in research that links theory and data and is capable of carrying out path analysis with latent variables, so it is often used by researchers who focus on social sciences.

## III. RESULT AND DISCUSSION

The bootstrapping results show that the above reflects the Path Coefficients which are the results of testing the direct effect so that it can be concluded as follows:

- a) Leadership style has a positive and significant effect on performance with a t statistic of 2.365 (p-value of 0.018 or less than 0.05)
- b) Leadership style has a positive and significant effect on compensation with a t statistic of 0.6.909 (p-value of 0.000 or less than 0.05)

- c) Compensation has a positive and significant effect on performance with a t statistic of 3.161 (p-value of 0.002 or less than 0.05)
- d) Competence has a positive but not significant effect on performance with a t statistic of 1.523 (p-values of 0.128 or greater than 0.05)
- e) Compensation has a positive but not significant effect on compensation with a t statistic of 1.778 (p-value of 0.076 or greater than 0.05)



**Fig 1. Full Model**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
leadership style -> performance	0.315	0.318	0.133	2.365	0.018
leadership style -> compensation	0.619	0.607	0.090	6.909	0.000
compensation -> performance	0.363	0.359	0.115	3.161	0.002
competency -> performance	0.213	0.205	0.140	1.523	0.128
competency -> compensation	0.158	0.165	0.089	1.778	0.076

Meanwhile, for testing the intervening variables, the following results were obtained:

- a) the influence of leadership style on performance with compensation as an intervening variable has a positive and significant effect with a t-statistic value of 2.672 and a p-value of 0.008 or less than 0.05
- b) the effect of competence on performance with compensation as an intervening variable shows positive results but is not significant with a t-statistic value of 1.661 and a p-value of 0.097 or greater than 0.05

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
leadership style -> compensation -> performance	0.225	0.219	0.084	2.672	0.008
competency -> compensation -> performance	0.057	0.057	0.035	1.661	0.097

**Outer Loadings**

In the outer model, we know Factor Loading. The factor loading value shows the correlation between the indicator and the construct. An indicator with a low loading value indicates that the indicator does not work in the measurement model. expected loading value > 0.7. In the outer model, we know Cross Loading. This value is another measure of discriminant validity. The expected value is that each indicator has a higher loading for the construct being measured compared to the loading value for the other constructs. In the outer model, we know Composite Reliability. This value indicates internal consistency, that is, a high composite reliability value indicates the consistency value of each indicator in measuring its construct. Expected CR value > 0.7.

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
GP1 <- leadership style	0.906	0.904	0.027	33.287	0.000
GP2 <- leadership style	0.929	0.928	0.020	45.696	0.000
GP3 <- leadership style	0.919	0.918	0.020	45.763	0.000
GP4 <- leadership style	0.913	0.910	0.023	39.577	0.000
KN1 <- performance	0.955	0.956	0.011	88.179	0.000
KN2 <- performance	0.925	0.923	0.021	43.757	0.000
KN3 <- performance	0.878	0.874	0.035	24.892	0.000
KP1 <- competency	0.927	0.924	0.028	33.654	0.000
KP2 <- competency	0.937	0.934	0.021	44.450	0.000
KP3 <- competency	0.935	0.934	0.018	52.700	0.000
KS1 <- compensation	0.917	0.913	0.030	30.730	0.000
KS2 <- compensation	0.905	0.898	0.033	27.198	0.000
KS3 <- compensation	0.875	0.875	0.032	27.575	0.000

All loading factors show numbers above 0.7 and all have p-values below 0.05, so it can be said that all observed variables can measure their latent variables well.

### 1. *The Effect of Leadership Style on Performance*

From the test results, it was found that Leadership Style had a positive and significant effect on performance with a t statistic of 2.365 (p-value of 0.018 or less than 0.05). The view of the energy base of people holds a very meaningful and very powerful contribution to a group. People energy base management is an integral part of management in general and is an important key to the success of group missions. Factors that affect the ability of employees include leadership, areas of activity, activity happiness, and others. Based on research results, it was found that leadership style has a positive and significant impact on employee performance. Leadership is an important aspect of giving advice to employees, especially at this time when everything is completely open, so the leadership that is needed is leadership that can empower its employees.

Bosses with absolute, participative, delegation, charismatic, and good social power can pressure employees to give their best abilities. Where absolute, delegated, charismatic, and populist power markers are in the solid type, on the other hand, participatory markers get a very strong type from officials. The results of research on the elasticity of leadership style prove a positive and significant impact on the performance of employees in the Bappedalitbangda Kota Pangkalpinang. This result is consistent with Heather's research, (2001) and Chen's (2004) study which shows that leadership can improve employee abilities. The results of this research are in line with Warsidi, 2015. The Effects of Visionary Leadership and Empowerment of Employees in the Cianjur Regency Spatial and Housing Administration Bureau (Research on Employee Perceptions in the Distarkim Area of Cianjur Regency) This is also in line with the study of Ahmad Mappaenre, 2014. Visionary Leadership of School Principals, Leadership Self-Effective Teachers, and School, that leadership has a positive relationship with improving employee performance.

### 2. *The influence of competence on performance*

The test results show that leadership style has a positive and significant effect on compensation with a t statistic of 0.6.909 (p-value of 0.000 or less than 0.05). This means that the increase in competence will have an impact on increasing the ability of employees. This study also concludes that the assumptions that have been formulated are in accordance with the hypothesis. This research proves results that are in line with the philosophy put forward by Abdi and Wahid (2018) which explains that if employees have great competence, they will be able to improve their abilities of the employees themselves. Increasing work competence needs to be implemented within the organization. Employees who have work competence tend to have good abilities in doing work and have expertise in completing work that originates from the activity targets set by the organization. In this case, it can generate enthusiasm for work within employees to

consistently advance and develop in doing work which can increase organizational performance. conversely, employees who do not have adequate competence tend to have no power in improving organizational performance. Where employees do not fully have the skills to complete the job, thus providing poor performance within the organization.

Even though employees have knowledge about the job, it is not matched with the skills they have, and it will be difficult for the work to reach the specified work targets so that the results achieved will be less than optimal. In addition to knowledge and skills, employees must also have an attitude of honesty and integrity at work as well as social attitudes toward colleagues. If employees are required to work in a team, then employees must also be able to undergo the working conditions set by the organization. This is also directly related to the ability of employees to adapt to whatever working conditions are happening or will happen. With all the competencies that are owned starting from intellectual competence, social competence, emotional competence, and spiritual competence, it certainly has an impact on the performance provided by employees to the company. Employee performance at Bappedalitbangda Kota Pangkalpinang can be seen from the superior's assessment of his subordinates which is indicated by the total score on the questionnaire used in collecting the data which is included in the high category. This result is in line with Wang, Hsi-Kong Chin's study. 2007, competence and performance have a positive relationship.

The interaction of core competencies, such as educational level and background, work experience, and training that has been attended, can reveal the effect of interference on employee performance. This research is also in accordance with the results of research conducted by Kadir, et al (2018) which obtained the result that competency has a positive and significant effect on employee performance. This is because if each employee has good work competence, it will have an impact on the better performance that will be produced. The same results were also obtained from the conclusions of Ismail, Rahmah, and Abidin's study. 2010, that competence has a significant influence on performance. The results of this study are supported by the research of Sanjaya and Indrawati (2014) which states that competency has a significant and positive influence on employee performance. Other supporting research is research conducted by Afrizoni (2016) which states that there is a significant influence between employee competence on employee performance. In addition, this research is supported by the theory presented by Wibowo (2016: 324) which suggests that competence is a skill possessed by someone in carrying out work. Another theory that supports this is the theory put forward by Sutrisno (2014: 202) which states that competence is defined as the behavior, skills, and abilities possessed by a person in carrying out their duties.

### 3. *Effect of Compensation on Performance*

Based on the results of research on the effect of Compensation on Performance at Bappedalitbangda Kota Pangkalpinang stated that Compensation has a positive and significant effect on performance with a t statistic of 3.161 (p values of 0.002 or smaller than 0.05). This means that if there is a compensation effect on the abilities of employees in the Pangkalpinang City Bappedalitbangda Office. Maybe the income related to the compensation given has fulfilled what the employee wants, given assistance, additional or incentives employees can be active in carrying out their duties. With the amount of increase in compensation given to employees, it is hoped that the performance of employees will also increase in increasing their performance and provide compensation that fits the wishes of employees or improves organizational performance. The results of this research report show that there is a relationship between compensation and performance. This result is in line with the results of previous research that was attempted by Sacks (2015: 34) with research results providing that compensation has a positive impact on the ability of employees to the results of this research support Rofiah (2012) in his research proving that compensation has a positive and important effect on employee abilities.

This result is also in line with Hidayatullah's research (2014) that compensation has a positive and significant effect on employee performance. From the results of the literature review, it was found that compensation has an effect on employee performance because compensation is a guideline for employee morale in maintaining performance. Performance is a result of the employee's hard work on the responsibilities given by the organization in achieving the overall goal, after the employee completes the duties and responsibilities properly, the organization is also obliged to provide good compensation. This



compensation can be in the form of salary, social security facilities, allowances, and others. Then there will be continuity between employees and companies that are mutually beneficial to each other

#### 4. *The Effect of Leadership Style and Compensation on Performance*

From the test results, it was found that the influence of leadership style on performance with compensation as an intervening variable had a positive and significant effect with a t statistical value of 2.672 and a p-value of 0.008 or less than 0.05. The results of the analysis in this study show that leadership style has a positive and significant effect on employee performance through compensation, in the sense that compensation can mediate leadership style on employee performance. The results of this study are in line with previous research which states that Leadership Style has an indirect effect on employee performance through compensation. Compensation is a motivation for employees to carry out their work seriously. Apart from being fair, compensation must also be appropriate in nominal terms based on a decent standard of living and applicable labor regulations. If employees' expectations of compensation are met, better performance will be created with feelings of satisfaction at work and in the end, can achieve overall company goals.

The results of this study are in line with the results of research (Rini et al., 2014) and Endrianingsih (2014) which state that compensation has a positive and significant effect on employee performance through motivation. This result is not in line with Priyanto's research (2016) which concluded that the compensation variable has a positive but not significant effect on employee performance through motivation. Compensation is the main consideration for employees in carrying out their work, compensation is a source of daily life for both employees and their families. Thus, at work, employees will tend to expect sufficient income to meet decent living needs for the entire family of the employee concerned. The success of an organization is strongly influenced by individual performance, the success or failure of an organization in carrying out its duties. Every organization or company will always try to improve employee performance, with the hope that the company's goals will be achieved. Increases and decreases in employee performance directly or indirectly affect the company's performance as a whole. Factors that affect employee performance as stated by (Suartama and Ardana, 2014) in their research, factors that affect employee performance include leadership style, financial compensation, education, work stress, and work discipline.

#### 5. *The Effect of Competence and Compensation on Performance*

The results of this study indicate that the effect of competence on performance with compensation as an intervening variable shows positive results but is not significant with a statistical t-value of 1.661 and a p-value of 0.097 or greater than 0.05. These findings indicate that needs for achievement that are not supported by leadership policies will reduce employee performance and reduce success. The performance of Bappedalitbangda Kota Pangkalpinang must be able to present a professional employee according to their expertise and field of work. All of that can be achieved if the individual has a need for achievement. So through the need for achievement approach, a leader should be able to show high appreciation if his subordinates have a strong desire to progress so that the performance of their employees increases.

The hope from McClelland's theory is that these difficult tasks provide opportunities for individuals to achieve work success. Therefore, to improve performance, leadership must be developed and improved continuously, without considering compensation variables. Competence will provide direction and guidance for every employee of Bappedalitbangda Kota Pangkalpinang in acting & working such as compliance with regulations, work discipline, and clear assignment of tasks so that they as employees can work with full responsibility. The results of this study are in line with the study of Yeni, Alwi, and Djoko (2017) which concluded that the compensation variable is unable to intervene in the influence of leadership on employee performance, even weakening (negative).

## IV. CONCLUSION

Based on the results of data analysis, the following conclusions can be drawn: Leadership style has a positive and significant effect on performance and compensation. Compensation has a positive and significant effect on performance. Competence has a positive but not significant effect on performance. Compensation has a positive but not significant effect on compensation. Leadership style has an effect on

performance with compensation as an intervening variable, and competence has no significant effect on performance with compensation as an intervening variable. In improving the performance of Bappedalitbangda Kota Pangkalpinang employees, Bappedalitbangda Kota Pangkalpinang should pay more attention to leadership style, increase competence, and improve compensation so that it has a significant influence in improving employee performance according to performance evaluation and their respective duties and responsibilities.

A good leadership style, competence, and compensation can improve the overall performance of Bappedalitbangda Pangkalpinang City employees so as to create an excellent organizational culture in maintaining the stability of human resources Bappedalitbangda Pangkalpinang City in general. The limitations experienced were the time intervals during the process of distributing and filling out the questionnaires given by the researchers on the grounds of being busy during office hours or official holidays. Hence, the researchers needed quite a long time to collect all the research results from the respondents. It is hoped that future researchers will carry out similar research at the Bappedalitbangda Pangkalpinang City by adding or differentiating the variables studied so that the performance of nurses can be seen so that the object of this study will have an impact on the maximum performance of nurses in carrying out their duties and functions.

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