

The Effect of Leadership and Compensation on Employee Performance

Leadership and
Compensation

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ABSTRACT

The study aims to understand the relationship between leadership, performance, and compensation in an organization. Job Performance refers to the total performance of an individual or group within a specific time frame. Performance is influenced by the output produced, while leadership is the ability to influence the performance of a group. Research has shown that leadership has significant effects on employee performance, motivation, and performance. Compensation is another factor that influences employee performance. It is a form of reward that motivates employees and is essential for understanding the performance of an organization. Research has also shown that a well-structured compensation package can improve employee performance. The study also highlights the importance of understanding the relationship between leadership, compensation, and performance in an organization. It suggests that organizations should focus on enhancing their leadership and compensation to achieve their goals. In conclusion, the study highlights the importance of understanding the relationship between leadership, compensation, and performance in an organization.

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ABSTRAK

Studi ini bertujuan untuk memahami hubungan antara kepemimpinan, kinerja, dan kompensasi dalam sebuah organisasi. Kinerja Kerja mengacu pada kinerja total individu atau kelompok dalam jangka waktu tertentu. Kinerja dipengaruhi oleh output yang dihasilkan, sementara kepemimpinan adalah kemampuan untuk mempengaruhi kinerja kelompok. Penelitian telah menunjukkan bahwa kepemimpinan memiliki efek signifikan terhadap kinerja karyawan, motivasi, dan kinerja. Kompensasi adalah faktor lain yang mempengaruhi kinerja karyawan. Ini adalah bentuk penghargaan yang memotivasi karyawan dan sangat penting untuk memahami kinerja sebuah organisasi. Penelitian juga menunjukkan bahwa paket kompensasi yang terstruktur dengan baik dapat meningkatkan kinerja karyawan. Studi ini juga menyoroti pentingnya memahami hubungan antara kepemimpinan, kompensasi, dan kinerja dalam sebuah organisasi. Studi ini menyarankan bahwa organisasi harus fokus pada peningkatan kepemimpinan dan kompensasi mereka untuk mencapai tujuan mereka. Kesimpulannya, studi ini menekankan pentingnya memahami hubungan antara kepemimpinan, kompensasi, dan kinerja dalam sebuah organisasi.

Kata kunci: Kepemimpinan, Motivasi, Kompensasi, Kinerja Karyawan

INTRODUCTION

An organization must be able to manage its resources in order to achieve the Vision, Mission as an organizational Target. One of the things that need to be considered in HR management is the organization's ability to maximize HR performance. Work performance according to Smayling & Miller (2012), is defined as the total value expected from an organization from various individual behaviors that occur within a certain period of time. According to Frolick & Ariyachandra (2006), performance management is a regular process to improve organizational performance by developing individual and

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team or group performance. According to Brewster (2017), performance is the achievement of conditions in a particular job that is reflected in the output produced. More explicitly, Lawler & Porter (1967) state that performance is the success of individuals in performing tasks. Factors that affect employee performance include leadership. According to Ibrahim & Daniel (2019), leadership is the ability to influence a group towards achieving goals. According to Scott (1961), leadership is the process of influencing activities carried out in a group, with the aim of helping them achieve predetermined targets. Based on the opinions of experts, leadership includes the unequal sharing of authority between leaders and group members.

Many studies have been conducted on the impact of leadership on employee performance. According to Yusuf et al. (2022), leadership patterns have a significant impact on employees. According to research from Saputra & Mahaputra (2022), leadership style has a significant effect on job satisfaction, organizational commitment, and employee performance in employees of the Department of Religion of Kendal Regency and Semarang City. According to Oktaviani & Suthanaya (2022), there is a good and significant influence between leadership and employee performance at La Brisa Beach Club Bali. Each employee's performance is influenced by leadership at PT Kisel (Telkomsel Cooperative) Bandar Lampung (Anwar & Dewanto, 2022). In contrast to the study conducted by Yanti et al. (2022), which states that leadership style has no important impact on employee performance at PT Felousa Trimedika Indonesia. Then in the research of Aman-Ullah et al. (2023), States that leadership has a negative and significant effect on teacher performance at SD Kartika. Sari's study (2019) resulted in a poor leadership impact and was not important for the performance of PDAM Tirta Deli employees, Deli Serdang Regency.

The management methods to improve work performance, motivate, and improve employee performance is through compensation (Syafuruddin et al., 2022). Referring to the opinion of Kamuh (2014) Compensation is what workers receive as a reward for the work they do. A number of studies, among others, discuss the effect of compensation on employee performance (Nugraha & Tjahjawati (2017). According to Usman & Listiani (2021), compensation has a good and important impact on employee performance. At Energi Mega Persada Tbk, compensation packages, employee performance, and financial performance are important variables for understanding organizational performance (Prasetyo, 2023). According to Thapa (2023), there is an important and meaningful influence between financial compensation motivation and employee performance. Based on the description mentioned, there are many studies that discuss the effect of leadership, and compensation on job satisfaction, but researchers are interested in adding a mediating variable, namely job satisfaction. There is a difference in influence between leadership styles and very rarely research on this subject is carried out at the Tax Service Office in the Pontianak City area. Researchers are interested in conducting research with the title *The Effect of Leadership and Compensation on Employee Performance*.

LITERATURE REVIEW

In business, the organization achieving goals in an effective and efficient manner is a very important part of an organization or institution. Performance can be used as the main factor to be an indicator that can determine the achievement of goals, objectives, vision, and mission that have been stated by the company in its plans and strategies. According to Brewster (2017), performance is how well the tasks associated with the job held by the employee are performed. Performance reflects how well employees fulfil the requirements of a job. Performance according to Mangkunegara (2018) is the result of work, both in quality and quantity, achieved by an employee who is relevant to the roles and obligations given to him. Performance is the ability of an employee to achieve goals and obligations and requirements that are targeted in any given job. So that employees must be able to fulfil all the obligations given by the company in operating the duties and functions that have been arranged so that the company is able to measure the contribution of an employee in helping the company achieve these organizational goals.

Ability is an individual's capacity to perform various tasks in a particular job. Greenberg and Baron in Buyung (2007) define ability as a person's mental and physical skills to complete various tasks, so ability is the proficiency or potential and skills possessed by employees which are the result of training and practice that employee can use in doing their jobs. According to Weiner (1990), motivation is the internal state of individuals that stimulates them to act, encourages them to achieve certain goals, and maintains their interest and involvement in certain activities. Therefore, it can be concluded that motivation is a factor that allows the emergence of employees' willingness and ability to work. Performance indicators are signs or characteristics used to measure performance results produced based on the company in determining the success of employee work. According to Brewster (2017), employee performance is the achievement of work results, both in terms of quality and quantity, obtained by an employee in carrying out his duties in accordance with the responsibilities given to him. According to Robbins (2016), performance indicators are tools used to evaluate the extent to which employees achieve achievements in their work.

According to Sembiring & Ferine (2018), work quality is defined as an evaluation of how well an employee carries out the tasks that should be done. This type of quality can be seen from the results of employee performance in completing tasks and responsibilities in accordance with the specified time. According to Robbins (2016), work quality can be assessed through employee perceptions of the quality of work produced, as well as the perfection of tasks in accordance with the skills and capacities possessed by employees. Work quantity means the amount of work and the utilization of time used during predetermined working hours. This type of quantity can be seen from the results of employee performance in completing tasks and responsibilities in accordance with the specified time. Simply put, quantity refers to a unit of measure that describes a concrete and achievable amount or value determined using numbers. Timeliness is the level of performance that must be completed within a predetermined time. Employee performance can be measured using employee timeliness in completing assigned work (Robbins, 2016). Effectiveness is the level of utilization of resources owned by the organization in a way that can be maximized to increase the results obtained from each part in using resources (Robbins, 2016). Independence is the level of a person's ability which can then be used in carrying out functions and tasks in the organization without getting help, direction, and supervision (Robbins, 2016).

According to Dessler & Varrkey (2005), compensation refers to all forms of rewards or payments given to employees in return for the work they do, as well as everything related to employees, such as benefits, incentives, or other facilities. Based on some of the expert opinions above, it can be concluded that compensation is something received by employees in return for the performance of their duties or performance results. As an obligation given to employees, compensation is not only related to the economy but can also be given broadly to other aspects felt by employees. According to Azmi (2024), the purpose of compensation includes several things, such as a tool to strengthen cooperation, increase job satisfaction, provide motivation, maintain employee stability, and strengthen discipline. With the compensation provided, it is hoped that a bond of cooperation will be created between employees so as to create attachment to one another. With compensation, employees will be able to fulfil their economic and social needs so that job satisfaction will be created. By providing compensation, it will motivate employees to complete the assigned tasks. The company will hope that by providing adequate compensation it will be able to maintain employee stability in the company. With the compensation provided, employees will be more disciplined in carrying out their roles and functions within the company.

As markers of compensation, wages and salaries are two different things. Wages are awards that are often given to workers involved in production or as daily workers, not permanent employees. Incentives are additional compensation given to employees beyond wages and salaries. Allowances are payments or services provided to employees as a supplement to their base salary. Facilities are a form of compensation provided by

superiors to employees or subordinates in the form of facilities to facilitate and motivate employees at work. According to Sahadi et al. (2020), leadership is a series of processes, personality traits, management needs, demonstrated behavior, ability to convince, provide authority, goal achievement, interaction, role differences, attitude structure, and a combination of two or more of these elements. Vonny (2021) states that leadership is a psychological process aimed at accepting sufficient tasks, oneself, and the fate of others. Based on the opinions of the experts above, it can be concluded that leadership is a process carried out by someone to be able to influence, direct, and guide an organization so that every part of the organization can be directed to achieve goals and show and influence the way the organization achieves predetermined goals.

According to Snell & Morris (2019), leaders in an organization have a very important role, not only internally for the organization concerned, but also in dealing with various external parties where all these efforts aim to increase the organization's capacity to achieve their targets. Types of leadership styles according to Busro (2018) include autocratic, militaristic, paternalistic, charismatic and democratic leadership styles. While the indicators of leadership style based on the opinion of Sembiring & Sitanggang (2022) are the ability to make decisions, motivate, communicate and control subordinates.

METHOD

Literature review design is a research method used in this study. According to Khatibah (2012), a literature review is a research method that aims to collect and draw conclusions from previous research and analyze a number of summaries that have been compiled by experts. The type of process chosen is through Traditional Review (TR). A traditional review is a method used by researchers when conducting a literature review. By using the traditional review process, the journals collected as references are still relevant to the research topic being conducted. The data collection method was carried out online to find several journals that have been published. The journals selected in this study are journals that meet the author's criteria where each journal is published through the Google Scholar site and the emerald.com site which raises the theme of the Effect of Knowledge Management on Employee Performance.

RESULTS

Research is an important way of understanding the various aspects that influence the performance of organizations and the employees within them. A number of studies have been conducted to explore the relationship between factors such as leadership style and compensation with organizational and employee performance. In this context, several studies highlighted the important role of transformational leadership, transactional leadership, and compensation on organizational performance and employee job satisfaction. One interesting study is that conducted by Pawirosumarto et al. (2017), this study found that both transformational and transactional leadership styles have a positive and significant impact on organizational performance, especially in educational institutions. This shows that an effective leadership style can bring positive changes in organizational performance, as well as have a meaningful impact on employee job satisfaction. However, the results of this study also show that although work environment, leadership style, and organizational culture have a positive and significant impact on job satisfaction, only leadership style has a positive and significant impact on the performance of employees who are the subject of the study. This highlights the importance of the role of leadership in shaping individual performance in organizations.

Research conducted by Ludwikowska (2022) also underlines the importance of leadership skills in improving employee work performance. The results of this study indicate that leadership skills have a positive and significant influence in improving employee work performance. This emphasizes that not only leadership styles are important, but also effective leadership abilities and skills. In addition, research conducted by Oktaviani & Suthanaya (2022), highlighted the role of leadership in a specific context at La Brisa Beach Club Bali. The results of this study confirmed that leadership has a

positive and significant influence on employee performance at the venue. This suggests that context and organizational characteristics can also influence the relationship between leadership and performance. Research from Retnowati et al. (2023), presents findings that are in line with previous research, that effective leadership has a positive impact on overall organizational performance. This shows consistency in research highlighting the important role of leadership in shaping organizational performance. However, in addition to the leadership factor, the compensation factor is also an important thing that affects employee performance and their job satisfaction. Research conducted by Thapa (2023) confirmed that compensation has a significant effect on employee work performance. This finding suggests that not only leadership aspects need to be considered in improving employee performance, but also other factors such as compensation.

Another study conducted by Fauzan (2022), showed that compensation has a positive impact on employee motivation, job satisfaction, and overall employee performance. This confirms the importance of an effective compensation strategy in motivating employees and improving their performance. Research Results Usman & Listiani (2021), presents research results that are in line with previous findings, that compensation has a positive influence on employee performance at Energi Mega Persada Tbk. This shows that the importance of good compensation management in creating a motivating and productive work environment. In addition, research conducted by Prasetyo (2023), highlighted the importance of compensation packages in improving overall employee performance. The findings confirm that not only the amount of compensation but also the structure and components of the compensation package can affect employee performance. The various studies that have been conducted show that both leadership and compensation factors have an important role in shaping organizational performance and employee job satisfaction. This research provides a deeper understanding of the factors that influence organizational performance and provides guidance for practitioners and leaders in managing their organizations and human resources.

CONCLUSION

There is a positive and significant influence between compensation variables on job satisfaction, as well as a positive and significant influence between compensation variables on employee performance. High compensation also correlates with increased employee performance. In other words, organizations that provide adequate compensation tend to see their employees perform better and are more satisfied with their jobs. High job satisfaction can also reduce employee turnover rates, which ultimately saves recruitment and training costs for the organization. Leadership in an organization plays a very crucial role, not only in the internal context of the organization but also in its interactions with external parties. An effective leader is able to guide an organization to achieve its goals through various challenges and opportunities. The transformational leadership style in particular has been shown to have a significant positive impact on employee performance. Transformational leaders tend to be more effective in creating positive change in organizations because they focus on individual development as well as achieving long-term goals. They encourage employees to think creatively, take initiative, and contribute maximally to their tasks. This leadership style can improve employee performance because employees feel appreciated and motivated to give their best. The combination of good compensation and effective leadership will create a work environment that is conducive to improving employee performance. In this way, organizations can achieve their goals more efficiently and effectively, and build a solid and dedicated team.

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