

Research Article

Indirect Effects of Participative Leadership Style and Non-Financial Compensation on Employee Performance through Work Motivation

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Abstract: This study intends to explore the mediated effect of work motivation on the influences of participative leadership style and non-financial compensation on the performance of employees at the banking institutions in the city of Banda Aceh, Indonesia. 180 employees at the 5-state-owned commercial banks (i.e., Bank Mandiri, Bank BTN, Bank BNI, Bank Syariah Mandiri, and Bank Aceh Syariah) in the city were selected as the respondents using the stratified random sampling technique. Based on the structural equation modeling (SEM), the study found that participative leadership style and non-financial compensation has a significant effect on work motivation. Participative leadership style is found to have no significant effect on employee performance, while non-financial compensation has significantly affected the performance of employees. The study also found the mediated effect of work motivation on the influences of participative leadership style and non-financial compensation on the performance of employees. These findings imply the importance of a manager to focus its efforts to improve employee performance based on the enhancement of employee's work motivation.

Keywords: Participative leadership, Non-financial compensation, Work motivation, State-owned commercial bank, Employee performance, Mediating effect.

INTRODUCTION

Financial institutions are companies that focus on financial transactions, such as investments, loans, and deposits. Conventionally, financial institutions consist of organizations such as banks, trust companies, insurance companies, and investment suppliers. As an intermediary institution, a bank raises funds from the community in the form of savings and then channels it back to the people who need loans. In its operations, customer components are an important element that is very influential in the continuation of the banking business. The better performance of banks is usually due to the better performance of employees because employees are a component of the factors of service production which are also important in determining the success of a financial business such as a Bank (Sitepu, 2013).

Similar to other profit-oriented companies, banks always strive for better performance. However, in a few years, there has been a declining growth in the

national banking industry in Indonesia, including the banking industry in Aceh province. The profitability of banks has declined to 2.5% in 2017 from 3% in 2018. Bank Indonesia reported that credit growth as of September 2017 was 7.9% lower than the August 2017 period of 8.4% (Infobank News, 2018). The slowdown in economic growth, on the one hand, led to slow credit growth, while on the other hand led to increased growth in banking third party funds. The combination of the two drives the decline in loan to deposit ratio (Business Finance, 2018).

Realizing this fact, thus it is important to explore the contribution of employee performance and its determinants. Employees are one of the backbones of the banking sector. What is considered as an obstacle for employees in improving their performance is allegedly participatory leadership style from superiors and career development which is included in non-financial compensation, low level of work motivating that is believed to have an impact on low employee

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performance. Employees feel that they have not been motivated by what has been obtained while serving as bank employees that have a bad impact on the growth and development of the banking industry in the future. Among the negative consequences of the above phenomenon is a decline in public confidence, as well as a decrease in interest of people in becoming customers of the banks. As it is known that one of the factors a person wants to become a customer of the bank is comfort in providing services and security in saving his money in the bank, where these factors greatly influence public confidence in the existence of banking institutions.

Previous studies show that to improve employee performance in addition to participatory leadership style, the factor that most causes low work morale is non-financial compensation (Albuquerque *et al.*, 2016). Participatory leadership style and non-financial compensation has influence work motivation and consequently employee performance. Low level of employee performance has been contributed by many factors, such as low levels of work motivation (Twalib and Kariuki, 2016; and Kiruja and Mukuru, 2018), compensation (Tosi *et al.*, 2004), participatory of leadership (Albuquerque *et al.*, 2016), and so on. An employee with a higher level of working motivation would work harder to accomplish the assigned official tasks. It becomes a strength, power, or a complex state and preparedness in an employee to move towards a specific goal, both consciously and unconsciously (Elliot *et al.*, 2016). Compensation is also identified as one of the important factors influencing the performance of an employee (Tosi *et al.*, 2004; Murty, 2012). Thus, providing adequate compensation is one of strategic decision to improve employees' working motivation and organizational commitments and finally their performance.

Although there have been many previous studies investigated the influences of compensation (Tosi *et al.*, 2004) and participative leadership (Huang *et al.*, 2010) on working motivation (Twalib and Kariuki, 2016; and Kiruja and Mukuru, 2018), none of them has focused their analysis on banking institutions in the province of Aceh, Indonesia. Additionally, none of the previous studies have investigated the mediated effects of work motivation on the influences of compensation and participative leadership on employee performance. Thus, this study intends to fill these gaps by exploring the mediating effects of working motivation on the relationship between non-financial compensation and participative leadership on employee performance of the banking institutions in the province of Aceh, Indonesia.

It is hoped that the findings of this study would be beneficial for the organizational leaders to be used as a reference to improve the performance of their staff based on the improvement of working motivation and

organizational commitment through a better compensation scheme. It is also hoped that the findings of this study could enrich existing literature on human resource management, especially those related to the influence of compensation and participative leadership style on working motivation and employee performance.

The next sections of this study proceed to provide a literature review in Section 3, and followed by providing the research method and data in Section 3. The discussion of the findings is provided in Section 4. Finally, Section 5 concludes the study.

LITERATURE REVIEW

Employee Performance

An employee plays a crucial role in determining the success of an organization, both public and private. Employee performance is defined by Timpe (2012) as the level of accomplishment of an individual or employee achievement in an organization. Work performance is real execution relates to representative genuine organization achievement. It is a result or employee working activities (Nurlaila, 2010). Performance can too be said as a result or yield of a particular handle performed by staff and all of the organization's parts. In a nutshell, the performance of an organizational is a combination of all employees' accomplishments (Robbins and Judge, 2016). Thus, organization performance is determined fundamentally by all employees within the organization. For this reason, the organization continuously endeavors to advance its employees achievement in accomplishing organization set targets.

Thus, employee performance is to what extent the leadership can bring the employee to support the organization to achieve its objectives. The organizational performance will not be realized without the support of employee performance, in this case, is the collective performance of employees (Mathis and Jackson, 2011). This shows that employee performance is one of the most important factors in determining the success of an organization in achieving its set goals. Successful employees meet deadlines, complete work, and build an organizational reputation through positive public interactions would contribute to the success of the organization to materialize its vision and mission.

Participative Leadership

Participatory management is referred to as a form of open management where employees are actively involved in the organization's decision-making process. This concept is applied by managers who understand the importance of human intelligence and seek strong relationships with their employees. They understand that employees are facilitators who deal directly with customers and meet their needs (Daft, 2010). To defeat the competition in the market and to stay ahead of the

competition, this form of management has been adopted by many organizations. They welcome innovative ideas, concepts, and thoughts from employees and involve them in the decision-making process.

According to Yukl and Mahsud (2010), the concept of employee participation in organizational decision making is not a new concept. However, the idea cannot gain that much popularity among organizations. Previous researches have shown that only 3-5% of organizations actually implement this concept in their daily operations. Although the theory of participatory management is as old as the institutions of employees and employers, this theory is not applied by most organizations. Thus, as for participative leadership, the leader turns to the team for input, concepts, and observations rather than creating all call on his or her own. It is not to say the leader has no last word deciding task; this can be to mention that the leader understands the team might have skills and concepts that would profit the choice-making process. In short, participative leadership involves the complete team. This can be a leadership vogue during which the leader works closely with team members, which specialize in building relationships and rapport.

Non-Financial Compensation

All human beings work for accumulating cash and wealth in order to satisfy their needs and desires. An employee progressively shows his/her loyalty to the organization because of compensation received as an exchange for his/her performance. Compensation is a few things that received by workers as a substitute for his/her service contribution to the organization. It is entire gifts to be given to workers reciprocally for his/her services (Noe *et al.*, 2011). This shows the importance of providing compensation to draw in, retain, and encourage workers. Compensation is used as a rational motive to encourage the employee to realize higher performance. Inappropriate compensation was given to workers would end in a decrease in their performance.

Njoroge and Kwasira (2015) stated that compensation is as a reasonable appreciation provided for employees due to their ability to accomplish of official duties and tasks. Compensation can be in the financial and non-financial forms. It also could be in terms of normative and policy. Normative compensation consists of salary or wages, holiday allowances, and other fixed components. Meanwhile, policy compensation is compensation based on special considerations such as food and transport allowances, bonuses, leave and holidays. Increasing pressure on organizations to control or reduce costs has increased the use of non-financial compensation as an alternative policy to reward employees (Sliwka, 2002).

Work Motivation

Employee motivation is one of the important factors affecting employee performance. Enhancing employee's working motivation is done to encourage the employee to make the greatest contribution to the success of the organization and expectations of needs. There have been two main motivational theories that are often used by employers, namely: extrinsic motivation and intrinsic motivation (Hellriegel and Slocum, 2011).

Motivation is the desire of someone to do something due to encouragement from themselves and outdoor the worker (Burke, 2007). It is miles a mental function of worker activities to contribute to the form of an employee's level of dedication including the elements that purpose, channel and preserve employee behavior within the course of positive willpower to attain the preference (Shahzadi *et al.*, 2014). It is miles as a using force for the worker to contribute to the success of the agency. It is clear that running motivation can offer electricity that drives all current capability, creates high and noble desires, and increases togetherness. Human beings are prompted to satisfy some of the inherent desires of every individual to survive and stay better. Those wishes consist of physical needs, security needs, social needs, reputation needs, and self-actualization needs.

RESEARCH METHOD

This study focuses its analysis on investigating the mediated effect of work motivation on the influences of participative leadership style and non-financial compensation on the performance of employees at the banking institutions in the city of Banda Aceh, Indonesia. 180 employees at the 5-state-owned commercial banks (i.e., Bank Mandiri, Bank BTN, Bank BNI, Bank Syariah Mandiri, and Bank Aceh Syariah) in the city were selected as the respondents of the study using stratified random sampling technique. The data collection is done through questionnaire distribution and measured based on the Likert scale.

Four variables are investigated in this study, namely participative leadership style and non-financial compensation (exogenous variable), work motivation (mediating variable), and employee performance (endogenous variable). In this study, participative leadership is measured using 10-indicator proposed by Huang *et al.*, (2010), non-financial compensation is measured by 5-indicator proposed by Irianto (2001), work motivation is measured by 5-indicator proposed by Hasibuan (2013), while employee performance is measured by 5-indicator introduced by Mangkunegara (2012).

To measure the interrelationships between variables, the Structural Equation Modeling (SEM) is used. The advantages of the use of SEM applications in this study are due to the high accuracy and speed of the results obtained from indicators and data analysis and its ability to confirm values theoretically (Hair *et al.*,

2012). The study conducts the instrument tests and goodness of fit indices to ensure the robustness of the estimated proposed research model.

The following SEM equations are estimated to empirically explore the direct and indirect relationships between variables:

$$WMT = \gamma_{11}PLS + \gamma_{12}NFC + \zeta_1 \quad (1)$$

$$EMP = \gamma_{21}PLS + \gamma_{22}NFC + \gamma_{23}WMT + \zeta_2 \quad (2)$$

Where WMT is the work motivation; PLS is the participative leadership style; NFC is the non-financial compensation; EMP is the employee performance; γ_{ii} are the estimated loading factors for each variable; and ζ_i are the structured error terms.

FINDINGS AND DISCUSSION

Before reporting and discussing the findings from SEM analysis, the descriptive statistics of respondents is firstly reported in Table 1.

Table1. Characteristics of Respondents

No.	Item	Frequency	%
1.	Gender:		
	▪ Male	101	56.1
	▪ Female	79	43.9
2.	Age:		
	▪ < 25 years old	53	29.4
	▪ 25 - 30 years old	24	13.3
	▪ 30 - 35 years old	20	11.1
	▪ 35 - 40 years old	57	31.7
	▪ ≥ 40 years old	26	14.4
3.	Marital status		
	▪ Single	59	32.8
	▪ Married	112	62.2
	▪ Widow/Widower	9	5.0
4.	Education level		
	▪ Senior high school	28	15.6
	▪ Academy/Diploma	33	18.3
	▪ Bachelor	110	61.1
	▪ Master	9	5.0
5.	Year of service		
	▪ < 5 years	65	36.1
	▪ 5-10 years	27	23.9
	▪ 10-15 years	61	33.9
	▪ 15-20 years	21	11.7
	▪ ≥ 20 years	6	3.3
Total		180	100

As reported in Table 1, out 113 employees in the state-owned banks in Aceh Province, Indonesia, 101 (56.1%) of them were male, while the rest 79 (43.9%) were female. In terms of age, the majority of employees were having age between 35 – 40 years old (31.7%), while the minority of them were in the age group between 35 - 30 years old (11.1%). The other employees were having of less than 25 years old (29.4%), in the age group between 25 – 30 years (13.3%) and in the age group above 40 years (14.4%).

In term of marital status, 62.2% have married, 32.8% were single, and only 5% were widow/widower, respectively. In the view of education level, 5% of employees having a master degree, 61.1% with a bachelor degree, 18.3% with a diploma degree, and 15.6% with Senior High School, respectively. Finally, when viewed from the consecutive years of service, 36.

1% of them have served the office for less than 5 years, 23.9% have served for 5-10 years, 33.9% have served for 10-15 years, 11.7% have served for 15-20 years, and 3.3% have served for more than 20 years.

Before the study estimates the Equations (1) and (2), the validity and reliability tests were conducted and found that all 25 indicators used to measure 4 variables were found to valid and reliable. This indicates that all indicators could be used to measure the variables and their relationships. The study also conducted the goodness of fit and documented that all goodness of fit indices are a better fit, showing the overall estimated models were good enough to provide robust findings.

Direct effects of participative leadership and non-financial compensation on work motivation and employee performance

Table 2 illustrates the estimated findings of direct effects of participative leadership and non-financial compensation on work motivation and employee performance at the state-owned banks in Aceh Province, Indonesia.

Table2. Findings of direct effects

Variable' relationship		Estimate	P-value
WMT	<--- PLS	0.247***	0.000
WMT	<--- NFC	0.282***	0.002
EMP	<--- PLS	0.045	0.495
EMP	<--- NFC	0.246***	0.000
EMP	<--- WMT	0.952***	0.000

Note: WMT = work motivation; PLS = participative leadership style; NFC = non-financial compensation; EMP = employee performance. *** indicates significance at the 1%.

As observed from Table 2, the study documented that, the participative leadership style and non-financial compensation has significantly and positively affected work motivation of the banking employees at the 1% significance level with the estimated coefficients of 0,247 and 0.282, respectively. These indicate that an improvement in participative leadership and non-financial compensation by 1 unit in the Likert scale has improved the work motivation by 0.247 and 0.282 units in the Likert scale, respectively. These findings showed the importance of leadership and compensation in improving work motivation of the state-owned banking employees in Aceh, Indonesia. These findings are in harmony with many previous studies, such as Abowd (1990), Tosi *et al.*, (2004), Huang *et al.*, (2010), Twalib and Kariuki (2016), and Kiruja and Mukuru (2018) who found that leadership and compensation are among the crucial factors influencing work motivation.

Next, except for a participative leadership style, the study found that both non-financial compensation and work motivation have significant positive effects on employee performance at the 1% level of significance. Specifically, as observed from Table 2, an increase in non-financial compensation and work motivation by 1 unit in the Likert scale has improved the employee performance by 0.246 and 0.952 units in the Likert scale, respectively. These findings showed that, as compared to compensation, work motivation is found to have the greatest influence on employee performance. Insignificance of participative leadership style on employee performance could be due to the presence of leaders among the employees, when the employees carrying out their official duties might cause the employees to feel become less independence, less innovative, less flexibility, and less of creativity because of being afraid

of making mistakes in front of their leaders. The reluctance and fear of employees to their leaders' presence while doing official duties might reduce employee performance.

Our finding on the important of compensation and work motivation on employee performance are in harmony with many previous studies by Tosi *et al.*, (2004), Huang *et al.*, (2010), Mariadi *et al.*, (2015), Twalib and Kariuki (2016), Kiruja and Mukuru (2018) Majid *et al.*, (2016), Sativa *et al.*, (2018), Marlina *et al.*, (2018), Kurniawan *et al.*, (2018), Fachreza *et al.*, (2018), Hidayat *et al.*, (2019), and Amin *et al.*, (2019), who documented the significant roles of compensation and work motivation on employees performance.

The mediating role of work motivation on the effects of participative leadership and non-financial compensation on employee performance

As illustrated in Table 3, the study found that work motivation has mediated the effects of both participative leadership style and non-financial compensation on employee performance at the 1% level of significance. These findings further confirmed our previous findings that the effects participative leadership and non-financial compensation on employee performance are only effective and significant through the enhancement of employees' working motivation.

Table3. Findings of indirect effect

Variable's relationships					Estimate	Sobel P-value
EP	<---	WMT	<---	PLS	0.235*** = (0.952 x 0.247)	0.000
EP	<---	WMT	<---	NFC	0.268*** = (0.952 x 0.282)	0.000

See Table 2.

In view of the fact that non-financial compensation is found to be significant in affecting employee performance directly and indirectly through the employees' working motivation, thus the variables of working motivation are acted as the partial mediator. On the other hand, the participative leadership style is found to be insignificant in affecting employee performance directly, but it was significant in affecting employee performance indirectly through the employees' working motivation, thus the variables of working motivation are acted as the full mediator. These findings indicate that the efforts to improve employee performance should be only focused on enhancing working motivation based on providing suitable non-financial compensation scheme and leadership style. Compensation in the non-monetary form should be given based on employee performance as it perceived as one of the most important factors influencing employee's working motivation and subsequently the employee performance

CONCLUSION

This study empirically explored and analyzed the mediated effect of work motivation on the influences of participative leadership style and non-financial compensation on the performance of employees at the six state-owned banks (i.e., Bank Mandiri, Bank BTN, Bank BNI, Bank Syariah Mandiri, and Bank Aceh Syariah) in the city of Banda Aceh, Indonesia. Using structural equation modeling (SEM), the study found that a participative leadership style and non-financial compensation have significant positive effects on work motivation. Participative leadership style is found to have no significant effect on employee performance, while non-financial compensation has significantly affected the performance of employees. The study found the mediated effect of work motivation on the influences of participative leadership style and non-financial compensation on the performance of employees of the banks. These findings imply the importance of a manager to focus its efforts to improve employee performance based on the enhancement of employee' work motivation.

To offer a more robust and comprehensive empirical finding on the factors affecting work motivation and employee performance, future studies are suggested to consider more variables into the model of estimation, comprising both internal and external exogenous determinants. Besides, incorporating various types of banks into the analysis would also enrich existing empirical evidence on the effects of leadership and compensation on work motivation, and consequently on employee performance.

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