

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Mediation Role of Job Satisfaction on the Influence of Non-Financial Compensation and Transactional Leadership on Employee Performance

Sutianingsih

Lecturer, Sekolah Tinggi Ilmu Ekonomi Atma Bhakti, Surakarta, Indonesia

Budiyanto

Professor, Department of Pascasarjana Doctoral Program,
Sekolah Tinggi Ilmu Ekonomi Indonesia, Surabaya, Indonesia

Suwitho

Lecturer, Department of Pascasarjana Doctoral Program,
Sekolah Tinggi Ilmu Ekonomi Indonesia, Surabaya, Indonesia

Abstract:

This research developed a path goal theory model and an empirical research model to fill the research gap regarding non-financial compensation and transactional leadership on employee performance. This research is causality research, the population of all food and beverage companies in Surakarta of 1,302 people. A sample of 306 employees was taken proportionally, using incidental sampling techniques. The instrument uses a questionnaire with a Likert scale, previously tested with logical connecting indicator tests, validity tests, and reliability. Data analysis using descriptive and quantitative analysis. Analysis tools using SEM AMOS. Non-financial compensation and transactional leadership directly have a significant positive effect on employee performance. Job satisfaction can play a role in mediating the influence of non-financial leadership and transactional leadership on employee performance. There is an influence of non-financial compensation on the performance of employees, although significant but small influence. This research contributes to the path-goal idea as evidence that leaders who are willing to guide and motivate their subordinates to achieve goals and non-financial compensation policies are essential determinants of increasing job satisfaction, improving employee performance.

Keywords: *Non-financial compensation, transactional leadership, job satisfaction, employee performance*

1. Introduction

The industrial sector influences the economic activity of a region. Surakarta City is one of the cities with considerable potential as a center of economic activity. The industrial sector is still the driving force of the economy in Surakarta City. The growth of leading industries is of particular concern in the economic development of a region, considering that this sector is the foundation for the formation and growth of the economy (Kumar et al., 2020). Surakarta City has many potential export-scale industries such as food and beverages, tobacco processing, textiles, apparel, leather and leather goods, wood, wood products, plaiting, paper, and paper goods on a regional scale, publishing, printing. Reproduction of recording media, chemicals, and goods from chemicals, rubber, and rubber goods.

One of the leading industries in Surakarta City is the food and beverage industry. Based on data from the Surakarta City Central Statistics Agency, in 2018, the value of the contribution of the food and beverage production sector to the Gross Regional Domestic Product (GRDP) in Surakarta City was 5.85 percent of all business sectors. However, the growth in production value from 2012 until 2017 decreased by Rp. 7.9 billion (BPS Kota Surakarta, 2018). Based on theoretical and empirical studies found several factors that affect employee performance include: communication satisfaction, job involvement, change-oriented leadership training, organizational support, recruitment, employee retention, work relations, training, development, work motivation, leadership impoliteness, creativity employees, employee psychology, work-life balance and happiness, transformational leadership, transactional leadership, compensation strategies, non-financial compensation, compensation practices, job satisfaction. However, in this case, not all of the factors that can affect the performance of the above employees will investigate.

Employee performance is employees' work at food and beverage companies in Surakarta City according to criteria during a specific period in carrying out tasks, such as work standards, targets, or targets to achieve company goals. Indicator's quality, quantity, commitment, ability to work together, effectiveness, creativity in problem solving, timeliness, independence, and competence (Gemeda & Lee, 2020). Non-financial compensation is all non-financial awards given by food and beverage companies in Surakarta City to employees as remuneration for carrying out tasks or employee contributions to the company

(Seema et al., 2021). Indicators exciting work, opportunities for development, training, authority and responsibility, performance rewards, supervisory competence, supportive working conditions, division of labor (Bachrach & Mullins, 2019).

In addition to non-financial compensation, another factor that can affect performance is leadership. The organization's success to achieve the goals that have been set cannot be separated from the role of leadership because leadership is the ability to influence, move, and direct action on a person or group of people to achieve specific goals in certain situations (Bin Nordin et al., 2019). Leadership acts as a driver of all human resources and other resources and is a critical factor in managerial aspects (Sainju et al., 2021). A leader's existence is the most important because it is the backbone and has a strategic role in achieving company goals (Guerine et al., 2020). Carry out their duties (Alefari et al., 2020). In addition, effective leadership can motivate employees to act to achieve better performance (Por Pan et al., 2020). Sutianingsih (2018) states that leadership has an effect on employee performance.

Transactional leadership is more appropriate for variables that affect employee performance in the food and beverage industry in Surakarta City. Food and beverage companies in Surakarta City are manufacturing companies whose average employee performance is measured based on the quality and quantity of each employee's output (Ghani Al-Saffar & Obeidat, 2020). Transactional leadership gives rewards if employees can work well and gives punishment to employees whose performance is not good (Gross et al., 2021; Patiar & Wang, 2020).

Transactional leadership in this study is a leadership model in the food and beverage industry in Surakarta City that guides, motivates, and supervises employees to achieve the goals set and rewards performance. Leaders know employees' wishes, leaders exchange employees' efforts in return, the leader is responsive to the employee's self-interest, active management by exception, passive management (Jumintono et al., 2018). Job satisfaction is an emotional state of employees of the food and beverage industry that is pleasant or unpleasant caused by evaluating the job and work situation (Park et al., 2020).

Non-financial compensation and transactional leadership are studies that must be conducted to analyze their effect on employee performance. Compensation consists of financial and such as wages/salaries, incentives, bonuses, commissions, and non-financial compensation consisting of awards, services, and benefits received by employees as part of the employment relationship (Gong et al., 2021). In particular, the difference between financial compensation and non-financial compensation (Davies et al., 2021). However, when viewed from the research indicators, the compensation variable in question is a combination of monetary compensation and non-financial compensation (Mobilio et al., 2021).

Novelty this research is a contribution to the development of path-goal theory leadership. This theory was developed to explain how a leader's behaviour affects the satisfaction and performance of his subordinates, or in other words, the results of the leader's behaviour are in the form of commission and job satisfaction, but in this study, the results of leader behaviour in the form of employee performance. In contrast, job satisfaction is placed as a mediating variable. Previous research searches have not specifically found non-financial compensation variables, transactional leadership, and job satisfaction as mediating variables on employee performance using background path-goal theory (Gheituray et al., 2019). Researchers have not found any research that examines the effect of non-financial compensation on employee performance using the path-goal theory basis. Furthermore, based on the results of the previous study, researchers have not found products that state that job satisfaction can mediate the effect of transactional leadership on employee performance.

2. Conceptualization and Hypotheses

This research focuses on three main variables that affect employee performance: non-financial and transactional leadership, with job satisfaction as a mediating variable. Conceptual research based on variables can be seen in Figure 1.



Figure 1: Conceptual Framework

- Hypothesis: This study proposes four hypotheses:
- H1: Non-Financial Compensation has a positive and significant effect on employee performance;
- H2: Transactional leadership has a positive and significant impact on employee performance;
- H3: Non-financial compensation mediated by job satisfaction has a positive and significant effect on employee performance;
- H4: Transactional leadership mediated by job satisfaction has a positive and significant impact on employee performance.

3. Research Method

This research is causal research with the scope of human resource management. The method used is a survey, primary data collection through research instruments or questionnaires that have previously been tested to connect indicators, test validity, and reliability. The approach used is a descriptive, inferential statistical method, namely Structure Equation Modelling (SEM) (Sabuhari et al., 2020).

The population of food and beverage industry employees in Surakarta City in 2020 is in the medium and large categories with 1.302 people. The number of samples as many as 306 people is taken proportionally. The research instrument used a questionnaire that was compiled based on the research variables. Previously, the connecting indicator test has been carried out. Employee performance consists of 9 indicators and is compiled into 26 statements. The non-financial compensation variable consists of 8 arrows and is arranged into 18 words. The transactional leadership variable consists of 5 indicators and is organized into 13 statements. The job satisfaction variable consists of 5 arrows and is arranged into 13 words. The measurement scale in each word is used a Likert measurement base scale, with a scale size ranging from 1 to 10 (Komariah et al., 2020). Then the interval is calculated and divided into three categories: average value 1 - < 4 low categories, the average value is 4 - < 7 in the medium category, and the average value is 7 - 10 in the high class.

Inferential statistical results are confirmatory factor analysis (CFA). Results of employee performance, non-financial compensation, transactional leadership, and job satisfaction probability value < 0.05. Because it has met the probability value, it shows that all indicators are valid and can indicate the variables. The results of the SEM assumptions consisting of the outlier test, normality test, multicollinearity test, and singularity all meet the requirements.

4. Results and Discussion

4.1. Results

The analysis results on the basic model or the one-step approach model as the base model carried out with the AMOS program have not met the goodness of fit criteria. Therefore, modifications were made by correlating the error parameters that might reduce the aggregate statistical value, especially the Chi-Square statistic. The results of the fundamental model analysis, referred to as the modified model, can be shown by the SEM modification index as shown in Figure 2.

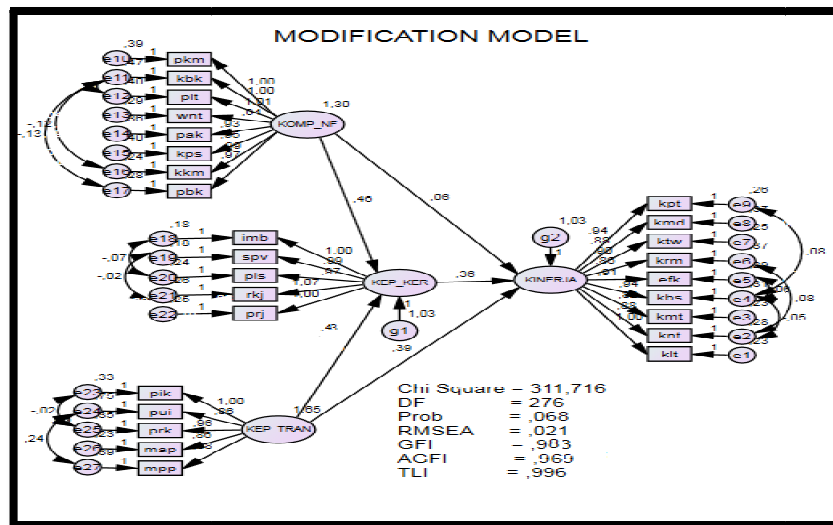


Figure 2: Model Two-step Approach Modification to SEM

The results of the *goodness of fit* test are as shown in the following table:

The Goodness of Fit Indices	Result	Cut-Off Value	Model Evaluation
χ^2 (Chi-Square)	311.716	$\leq \chi^2_{(0.05; 276)} = 315.748$	Good
Significant Probability	0.068	≥ 0.05	Good
CMIN/DF	1.129	≤ 2.00	Good
RMSEA	0.021	≤ 0.08	Good
GFI	0.983	≥ 0.90	Good
AGFI	0.969	≥ 0.90	Good
CFI	0.997	≥ 0.95	Good
TLI	0.996	≥ 0.95	Good

Table 1: Criteria Evaluation Goodness of Fit Indices Modification
Source: Author's Research

Based on the table in general, the results can be accepted in a suitable category to meet the requirements still. Based on the analysis, it is known that the CR and probability values are listed in table 2.

Significance of Path Coefficient	Coefficient	Value C.R	SE	Value (P)	Test results
The Effect of NPC on KIN	0.056	2.243	0.025	0.048	Significant
The Effect of KT on KIN	0.389	6.946	0.056	0.012	Significant
The Effect of NPC on KK	0.464	7.524	0.062	0.004	Significant
The Effect of KT on KK	0.431	7.836	0.055	0.002	Significant
The Effect of KK on KIN	0.364	5.924	0.061	0.019	Significant

Table 2: Significance Test Results
Source: Author's Research

4.2. Discussion

Based on table 2, the estimated value is 0.056 and the critical ratio (CR) value is $2.243 > 1.96$ (significantly $0.048 < 0.05$), then hypothesis 1 is accepted. The causal relationship of the structural equation modelling model formed through hypothesis testing provides information that the non-financial compensation variable affects the performance of employees in the food and beverage industry in Surakarta City is acceptable. Indicated by a probability value of $0.035 < 0.05$ so that there is a significant influence between non-compensation and non-financial compensation. In this case, the employee's performance is related (Padauleng et al., 2020). The means that the better the non-financial compensation system carried out by the food and beverage industry so that it will further improve employee performance (Sharma & Taneja, 2018). When viewed from the coefficient, which is 0.056 or 5.6%, although this value is significant, it shows the smallest effect compared to the influence of transactional leadership variables and the effect of non-financial compensation through job satisfaction (Boulagouas et al., 2021). That non-financial compensation has little effect on employee performance (Nazarian et al., 2021).

In the transactional leadership variable, the estimated value is 0.389 and the critical ratio (CR) is $6.946 > 1.96$ (significantly $0.012 < 0.05$), so hypothesis 2 is accepted. The results of this study provide positive confirmation of the results of previous studies and indicate the importance of transactional leadership that leaders must carry out in the food and beverage industry in Surakarta City. In testing hypothesis 3, the results of the Sobel test calculated online obtained a value of 4.666, which is greater than the cut-off value of 1.96. Therefore, it can be said that the job satisfaction variable plays a convincing role as a mediating variable (intermediate variable) that connects the effect of non-compensation financial performance of employees, then hypothesis 3 is accepted. Thus, strengthen the notion that job satisfaction can mediate the impact of non-financial compensation on employee performance (Li et al., 2020).

It is testing the mediating role of job satisfaction on the effect of transactional leadership in the food and beverage industry in Surakarta City. As a result, the Sobel value of 4.748 is greater than the cut-off value of 1.96. Therefore, the job satisfaction variable plays a convincing role as a mediating variable (intermediate variable) that connects the effect of transactional leadership on employee performance, so hypothesis 4 is accepted. Efforts that need to be made by the company in addition to non-financial compensation and transactional leadership so that employee performance is reasonable and consistently increases, the company must create job satisfaction. Previous research on job satisfaction has provided an in-depth understanding of the impact of job satisfaction on employee performance (Azimi et al., 2019). In addition, job satisfaction affects employee performance (Ramirez & Böhm, 2021). Therefore, in line with the opinion above, it is agreed that there is a strong correlation between job satisfaction and employee performance (Yousef, 2017).

This study has implications for Path-Goal Theory on aspects of employee performance that are influenced by job satisfaction, non-financial compensation, and transactional leadership (Judge et al., 2017). The SEM model's impact in this study strengthens the Path-Goal Theory applied to the food and beverage industry (Monroe et al., 2021). The truth of this model is evident from the modelling tests that are aligned with the dominant aspects of employee performance in Path-Goal Theory (Soto-Rubio et al., 2020). Based on the research results, non-financial compensation variables, transactional leadership, and job satisfaction are essential variables in improving employee performance in the food and beverage industry in Surakarta City. Therefore, this research can assist companies in improving employee performance, as well as being a material for evaluation and feedback on efforts to provide non-financial compensation and leadership style models, especially handling employee performance (Khan et al., 2021).

The limitation of this study is the effect of non-financial compensation on employee performance, although significant but the results can be ignored. Researchers have not obtained data on the value of food and beverage industry production in 2018-2020. In addition, due to restrictions on activities caused by the covid 19 pandemic, researchers were unable to observe the production process directly at each company.

5. Conclusion

Non-financial compensation and transactional leadership directly have a significant positive effect on employee performance. Job satisfaction can play a role in mediating the influence of non-financial leadership and transactional leadership on employee performance. Strengthening the path-goal theory can be implemented in the food and beverage industry. This research contributes to the path-goal idea as evidence that leaders who are willing to guide and motivate their subordinates to achieve goals and non-financial compensation policies are essential determinants of increasing job satisfaction, improving employee performance.

6. References

- i. Alefari, M., Almani, M., & Saloni, K. (2020). A system dynamics model of employees' performance. *Sustainability (Switzerland)*, 12(16). <https://doi.org/10.3390/su12166511>
- ii. Azimi, R., Golam, A. *, Heshmati, A., Farzam, M., Goldani, M., & Rangeland, D. A. (2019). Effects of Mycorrhiza, Zeolite and Superabsorbent on Growth and Primary Establishment of *Agropyron desertorum* in Mining Field (Case Study: Mashhad's Shargh Cement Factory, Iran). In *Journal of Rangeland Science (Vol. 9, Issue 2)*. IA University, Borujerd Branch.
- iii. Bachrach, D. G., & Mullins, R. (2019). A dual-process contingency model of leadership, transactive memory systems and team performance. *Journal of Business Research*, 96, 297–308. <https://doi.org/10.1016/j.jbusres.2018.11.029>
- iv. Central Bureau of Statistics of the Republic of Indonesia. 2018. Surakarta city in Numbers. Central Bureau of Statistics. Surakarta.
- v. Bin Nordin, M. N., Bin Mustafa, M. Z., & Bin Abdul Razzaq, A. R. (2019). The practice of headmasters' leadership and its effect on job satisfaction of special education integration Program (PPKI) teachers in Johor, Malaysia. *Universal Journal of Educational Research*, 7(9), 2008–2014. <https://doi.org/10.13189/ujer.2019.070923>
- vi. Boulagouas, W., García-Herrero, S., Chaib, R., Herrera García, S., & Djebabra, M. (2021). On the contribution to the alignment during an organizational change: Measurement of job satisfaction with working conditions. *Journal of Safety Research*, 76, 289–300. <https://doi.org/10.1016/j.jsr.2020.12.006>
- vii. Davies, A., Lockstone-Binney, L., & Holmes, K. (2021). Recognising the value of volunteers in performing and supporting leadership in rural communities. *Journal of Rural Studies*. <https://doi.org/10.1016/j.jrurstud.2021.05.025>
- viii. Gameda, H. K., & Lee, J. (2020). Leadership styles, work engagement and outcomes among information and communications technology professionals: A cross-national study. *Heliyon*, 6(4). <https://doi.org/10.1016/j.heliyon.2020.e03699>
- ix. Ghani Al-Saffar, N. A., & Obeidat, A. M. (2020). The effect of total quality management practices on employee performance: The moderating role of knowledge sharing. *Management Science Letters*, 10(1), 77–90. <https://doi.org/10.5267/j.msl.2019.8.014>
- x. Gheitury, M., Heshmati, M., Fayaz, M., & Parvizi, Y. (2019). Effects of Sowing Season and Method on Seedling Emergence and Survival Rate of *Viciavariabilis* in Kermanshah, Iran. In *Journal of Rangeland Science (Vol. 9, Issue 4)*. IA University, Borujerd Branch.
- xi. Gong, Z., Guo, W., & Słowiński, R. (2021). Transaction and interaction behavior-based consensus model and its application to optimal carbon emission reduction. *Omega*, 104, 102491. <https://doi.org/10.1016/j.omega.2021.102491>
- xii. Gross, H. P., Ingerfurth, S., & Willems, J. (2021). Employees as reputation advocates: Dimensions of employee job satisfaction explaining employees' recommendation intention. *Journal of Business Research*, 134, 405–413. <https://doi.org/10.1016/j.jbusres.2021.05.021>
- xiii. Guerine, L., Belgourari B, M., & Guerini, H. (2020). Cartography and Diachronic Study of the Naama Sabkha (Southwestern Algeria) Remotely Sensed Vegetation Index and Soil Properties. *Journal of Rangeland Science*, 10(2).
- xiv. Judge, T. A., Weiss, H. M., Kammeyer-Mueller, J. D., & Hulin, C. L. (2017). Job attitudes, job satisfaction, and job affect: A century of continuity and of change. *Journal of Applied Psychology*, 102(3), 356–374. <https://doi.org/10.1037/apl0000181>
- xv. Jumintono, Suyatno, Zuhary, M., Said, H., & Azman, M. N. A. (2018). Vocational education principal of leadership: A case study in East Nusa Tenggara. *Journal of Social Sciences Research*, 2018 (Special Issue 6), 825–831. <https://doi.org/10.32861/jsr.spi6.825.831>
- xvi. Khan, K. M., Arshad, J., & Khan, M. M. (2021). Empirical analysis of transaction malleability within blockchain-based e-Voting. *Computers and Security*, 100. <https://doi.org/10.1016/j.cose.2020.102081>
- xvii. Komariah, K., Rasid, A., & Abdul, B. (2020). Antecedent Factor of Tourists' Intention to Consume Traditional Food. *Geojournal of Tourism and Geosites*, 32(4). <https://doi.org/10.30892/gtg.3>
- xviii. Kumar, R., Singh, R. K., & Dwivedi, Y. K. (2020). Application of industry 4.0 technologies in SMEs for ethical and sustainable operations: Analysis of challenges. *Journal of Cleaner Production*, 275. <https://doi.org/10.1016/j.jclepro.2020.124063>
- xix. Li, Y., Huang, H., & Chen, Y. Y. (2020). Organizational climate, job satisfaction, and turnover in voluntary child welfare workers. *Children and Youth Services Review*, 119. <https://doi.org/10.1016/j.childyouth.2020.105640>
- xx. Mobilio, S. B., Irish, T. R., Larson, J. W., Finnerty, M. W., & Sweetser, K. D. (2021). The few, the proud, the satisfied? The relationship between perceptions of public affairs and job satisfaction in the U.S. Marine Corps. *Public Relations Review*, 47(4), 102045. <https://doi.org/10.1016/j.pubrev.2021.102045>
- xxi. Monroe, C., Loresto, F., Horton-Deutsch, S., Kleiner, C., Eron, K., Varney, R., & Grimm, S. (2021). The value of intentional self-care practices: The effects of mindfulness on improving job satisfaction, teamwork, and workplace environments. *Archives of Psychiatric Nursing*, 35(2), 189–194. <https://doi.org/10.1016/j.apnu.2020.10.003>
- xxii. Nazarian, A., Atkinson, P., Foroudi, P., & Edirisinghe, D. (2021). Factors affecting organizational effectiveness in independent hotels – The case of Iran. *Journal of Hospitality and Tourism Management*, 46, 293–303. <https://doi.org/10.1016/j.jhtm.2021.01.002>
- xxiii. Padauleng, A. W., Sidin, A. I., & Ansariadi. (2020). The relationship between leadership style and nurse's work

- motivation with the implementation of patient safety culture in hospital, Bone regency. *EnfermeriaClinica*, 30, 161-164. <https://doi.org/10.1016/j.enfcli.2020.06.037>
- xxiv. Park, S. H., Lee, P. J., Lee, B. K., Roskams, M., & Haynes, B. P. (2020). Associations between job satisfaction, job characteristics, and acoustic environment in open-plan offices. *Applied Acoustics*, 168. <https://doi.org/10.1016/j.apacoust.2020.107425>
- xxv. Patiar, A., & Wang, Y. (2020). Managers' leadership, compensation and benefits, and departments' performance: Evidence from upscale hotels in Australia: Leadership, compensation and performance. *Journal of Hospitality and Tourism Management*, 42, 29-39. <https://doi.org/10.1016/j.jhtm.2019.11.005>
- xxvi. Por Pan, T., Trakulmututa, J., & Youravong, N. (2020). Self-perception of leadership style of dentists: heads of dental departments in community hospitals, Southern Thailand. *International Dental Journal*, 70(3), 193-200. <https://doi.org/10.1111/idj.12544>
- xxvii. Ramirez, J., & Böhm, S. (2021). Transactional colonialism in wind energy investments: Energy injustices against vulnerable people in the Isthmus of Tehuantepec. *Energy Research & Social Science*, 78, 102135. <https://doi.org/10.1016/j.erss.2021.102135>
- xxviii. Sabuhari, R., Sudiro, A., Irawanto, D. W., & Rahayu, M. (2020). The effects of human resource flexibility, employee competency, organizational culture adaptation and job satisfaction on employee performance. *Management Science Letters*, 10(8), 1777-1786. <https://doi.org/10.5267/j.msl.2020.1.001>
- xxix. Sainju, B., Hartwell, C., & Edwards, J. (2021). Job satisfaction and employee turnover determinants in Fortune 50 companies: Insights from employee reviews from Indeed.com. *Decision Support Systems*, 113582. <https://doi.org/10.1016/j.dss.2021.113582>
- xxx. Seema, Choudhary, V., & Saini, G. (2021). Effect of Job Satisfaction on Moonlighting Intentions: Mediating Effect of Organizational Commitment. *European Research on Management and Business Economics*, 27(1). <https://doi.org/10.1016/j.iemeen.2020.100137>
- xxxi. Sharma, S., & Taneja, M. (2018). The effect of training on employee performance. *International Journal of Recent Technology and Engineering*, 7(4), 6-13. <https://doi.org/10.36555/almana.v4i3.1477>
- xxxii. Soto-Rubio, A., Giménez-Espert, M. D. C., & Prado-Gascó, V. (2020). Effect of emotional intelligence and psychosocial risks on burnout, job satisfaction, and nurses' health during the covid-19 pandemic. *International Journal of Environmental Research and Public Health*, 17(21), 1-14. <https://doi.org/10.3390/ijerph17217998>
- xxxiii. Sutianingsih. 2018. The Leadership Effect on The Job Satisfaction and Discipline Which Impact on Employee Performance. *PEOPLE: International Journal of Social Sciences* 4(2):1393-1404.
- xxxiv. Yousef, D. A. (2017). Organizational Commitment, Job Satisfaction and Attitudes toward Organizational Change: A Study in the Local Government. *International Journal of Public Administration*, 40(1), 77-88. <https://doi.org/10.1080/01900692.2015.1072217>