THE EFFECT OF SITUATIONAL LEADERSHIP STYLE AND COMPENSATION TO IMPROVE EMPLOYEES PERFORMANCE AT BANK SECTOR IN BALI – INDONESIA

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Abstract: The purpose of this study is to examine and determine the effect of situational leadership style and compensation on job satisfaction to improve performance. This study uses a quantitative method research design to test the models and instruments that have been developed by previous researchers through inferential statistics by using Structural Equation Modelling (SEM), with Partial Least Square (PLS) approach. The population consists of 187 employees of PT. Taspen Bank Mandiri Branch office Melati Denpasar Bali Indonesia and a sample collected is 75 employees. The research results showed that (1) situational leadership style has a positive and significant effect on job satisfaction, (2) compensation has a positive and significant effect on job satisfaction, (3) situational leadership style has a positive and significant effect on employee performance, (4) compensation has a positive and significant effect on employee performance, (5) job satisfaction has a positive and significant effect on employee performance. The implication of this study practically is providing contributions to strengthen the theory and results of previous studies and trust in the world of practice relating to the behavior of the influence of situational leadership style variables and compensation on job satisfaction and employee performance.

Keywords: Situational leadership style, compensation, job satisfaction, employee performance.

1. INTRODUCTION

Research Background

In a company, achieving goals is a business philosophy that always underlies every activity of the company. The company in carrying out activities should have a leader who is reliable thus they are able to direct and develop innate businesses in accordance with the power that they have towards achieving the company's goals and objectives efficiently, effectively and economically. Without leadership, there might be a loosening of the relationship between individual and organizational goals. Human resources are the most important assets in an organization that includes leaders and employees as subordinates.

PT. Bank Mandiri Taspen branch office Melati Denpasar as a subsidiary of PT. Bank Mandiri (Persero) Tbk is one of the financial service providers in Denpasar city. Bank as an institution engaged in finance should have high morale for employees in improving performance to carry out their duties and responsibilities.

Based on the observation on employees at PT. Bank Mandiri Taspen Branch office Melati Denpasar found that the leadership is still less active with subordinates, unfair compensation received by employees in accordance with the workload of their work, job satisfaction on the work environment that is less comfortable, and decreased employee performance from year to year.
Research gap

Empirical studies were conducted to examine the effect of situational leadership style and compensation to stimulate satisfaction thus performance can be created. At the stage of empirical studies found different results or findings from the influence or effect of leadership style on employee performance. Some studies show significant positive results (Slamet, et al., 2013; Wahyuningdyah, et al., 2017; Sandra, et al., 2017; and Ghazzawil, et al., 2017), however, other studies show insignificant results (Susanto, 2014; Miranti, 2015).

The difference in the results of empirical studies was also found in the compensation effect on employee performance. Some studies show significant results (Muttaqien, 2014; Astuti and Sudharma, 2012; Tindow et al., 2014), however, other study shows insignificant result (Munandar, 2014).

Based on the development of field phenomenon gaps and the findings of existing empirical studies, this study adopts job satisfaction as a mediation of the influence of situational leadership style and compensation on employee performance based on the results of previous empirical studies. The influence of situational leadership style on job satisfaction is mostly found to be positive (Aryanti, 2014; Suryana et al., 2014; Satyawati and Suartana, 2014) the effect of compensation on job satisfaction is also mostly found to be positive (Sopiah, 2013; Salisu et al., 2017; Mabaso and Dlamini, 2017) as well as the effect of job satisfaction on employee performance found to be significantly positive (Admojo, 2012; Putri, 2013; Afshar and Doosti, 2016).

Research problem formulation

The whole gap phenomenon and research gap presented provide clear direction about the formulation of research problems, they are; Does the situational leadership style and compensation have a direct positive effect on satisfaction and employee performance. Does the job satisfaction have a significant positive effect on employee performance, and does the job satisfaction plays a significant role as mediating the influence of situational leadership style and compensation on employee performance.

2. LITERATURE REVIEW

Situational Leadership Style

Hersey and Blanchard in Daft (2012: 340-341) focuses on the behavior of leaders in relations with employees. More than previous theories, this approach focuses more on employee characteristics; in this case, employees have different levels of readiness. Employees who have a low level of readiness due to lack of ability or training, or feeling insecure that requires a different leadership style with employees who have a high level of readiness. According to Daft (2012) indicators to measure situational leadership style are divided into four indicators, including: telling, selling, participating, and delegating.

Compensation

Compensation is an award or reward to employees who have contributed in realizing their goals through activity called work (Nawawi, 2001:315).

There are four indicators of compensation according to Simamora, (2004: 56) including: Fair salaries according to work, incentives that are in accordance with sacrifices, benefits that are in accordance with expectations, adequate facilities.

Job satisfaction

According to Handoko (2000) "job satisfaction is a pleasant or unpleasant emotional state with which employees view their work". Meanwhile, according to Hariandja (2000) "Job satisfaction is the extent to which individuals feel positively or negatively various kinds of factors or dimensions or tasks at work".

There are five compensation indicators according to Robbins (2001) including: jobs, wages, promotions, supervisors, co-workers.

Employee performance

According to Hasibuan (2002: 160), employee performance is a result of work achieved by someone in carrying out their duties on skills, effort and opportunity. Based on the above explanation, performance is a result achieved by a person in carrying out tasks based on skills, experience and sincerity as well as time according to the standards and criteria previously set.
There are eight indicators of employee performance according to Notoatmodjo, (2004: 203) including: initiative, work performance, responsibility, timeliness, honesty, cooperation, initiative, and work speed.

Hypothesis

*The effect of situational leadership style on job satisfaction*

The study conducted by Aryanti (2014) shows that situational leadership style has a positive effect on job satisfaction. Other study conducted by Satyawati and Suartana (2014) shows that leadership style has a positive effect on employee job satisfaction. Based on the results of previous empirical studies, hypotheses can be formulated as follows:

H$_1$: Situational leadership style has a positive effect on job satisfaction

*The effect of compensation on job satisfaction*

The study conducted by Potale and Uhind (2015) shows that compensation has a positive and significant effect on job satisfaction, another study conducted by Salisu et al. (2016) shows that compensation has a positive effect on job satisfaction. As well as the study conducted by Sopiah (2013) shows that financial compensation has a positive effect on job satisfaction. Based on the results of previous empirical studies, hypotheses can be formulated as follows:

H$_2$: Compensation has a positive effect on job satisfaction

*The effect of situational leadership style on employee performance*

The study conducted by Wahyuningdyah et al. (2015) shows that situational leadership style has a positive effect on employee performance. Other research conducted by Sandra, et al. (2017) shows situational leadership style has a positive effect on employee performance. Based on the explanation, hypotheses can be formulated as follows:

H$_3$: Situational leadership style has a positive effect on employee performance

*The effect of compensation on employee performance*

The study conducted by Astuti and Sudharma (2012) shows that compensation has a positive and significant effect on employee performance. In line with the research conducted by Tindow et al. (2014) which show that compensation has a positive and significant effect on employee performance. Based on the explanation, hypotheses can be formulated as follows:

H$_4$: Compensation has a positive effect on employee performance

*The effect of job satisfaction on employee performance*

This research was conducted by Atmojo (2012). It shows that job satisfaction has a positive effect on employee performance. Another study conducted by Afshar and Doosti (2016) shows that job satisfaction has a positive effect on employee performance. Based on the explanation, hypotheses can be formulated as follows:

H$_5$: Job satisfaction has a positive effect on employee performance

3. **RESEARCH METHODOLOGY**

This study uses a quantitative method research design to test the models and instruments that have been developed by previous researchers through inferential statistics by using *Structural Equation Modelling (SEM)*, with *Partial Least Square (PLS)* approach. The population consists of 187 employees of PT. Taspen Bank Mandiri Branch office Melati Denpasar Bali Indonesia and a sample collected is 75 employees.

**Variables and measures**

There are four variables involved in this study including; situational leadership style indicators are developed from Daft (2012), indicator compensation is developed from Simamora (2004: 56), job satisfaction indicators are adopted from Robbins (2001) and employee performance as an indicator adopted from Notoatmodjo (2004: 203). The indicators of each construct have been empirically tested and have been used in previous empirical studies. All items as research instruments use Likert scale 5 points ranging from “poor (1)” to “excellent (5)”.
Construct validity and reliability

Validity and reliability tests were carried out by involving 30 respondents. This test was carried out by finding significant correlation and Cronbach Alpha for each dimension and construct. Constructions were declared reliable if they had a Cronbach Alpha value of > 0.70 (Malhotra 2007). The indicator has a valid condition if each indicator score contains a positive and significant bivariate correlation with the total score indicator. Table 1 explains the value of Cronbach Alpha for each construct and the dimensions show values above 0.7 and significant correlations per indicator show positive values.

<table>
<thead>
<tr>
<th>No</th>
<th>Variables</th>
<th>Item</th>
<th>Correlation coefficient</th>
<th>Status</th>
<th>Cronbach alpha</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Situational Leadership Style ( X₁ )</td>
<td>X₁₁</td>
<td>0.427</td>
<td>Valid</td>
<td>0.672</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X₁₂</td>
<td>0.405</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>X₁₃</td>
<td>0.583</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>X₁₄</td>
<td>0.446</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Compensation ( X₂ )</td>
<td>X₂₁</td>
<td>0.468</td>
<td>Valid</td>
<td>0.655</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X₂₂</td>
<td>0.353</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>X₂₃</td>
<td>0.520</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>X₂₄</td>
<td>0.626</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Job Satisfaction ( Y₁ )</td>
<td>Y₁₁</td>
<td>0.396</td>
<td>Valid</td>
<td>0.739</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y₁₂</td>
<td>0.592</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y₁₃</td>
<td>0.421</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y₁₄</td>
<td>0.552</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y₁₅</td>
<td>0.583</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Employee Performance ( Y₂ )</td>
<td>Y₂₁</td>
<td>0.665</td>
<td>Valid</td>
<td>0.938</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y₂₂</td>
<td>0.733</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y₂₃</td>
<td>0.846</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y₂₄</td>
<td>0.819</td>
<td>Valid</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Y₂₅</td>
<td>0.917</td>
<td>Valid</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>Y₂₆</td>
<td>0.851</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y₂₇</td>
<td>0.826</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y₂₈</td>
<td>0.633</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data Analysis

This study uses a minimum loading factor value of 0.50 for practically significant reflective indicators (Hair et al, 2006). The output of the loading factor analysis in this study shows that all items have a loading factor value of <0.50, with p> 0.05 or T-Statistics above 1.96, thus they meet the convergent validity requirements. Table 2 shows that Composite reliability is good if it has a value above 0.70. The value of Composite reliability obtained in this study is above 0.70 thus, it matches with the criteria of Nunnally (1978).

<table>
<thead>
<tr>
<th>Variables</th>
<th>Composite reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Situational Leadership Style ( X₁ )</td>
<td>0.828</td>
</tr>
<tr>
<td>Compensation ( X₂ )</td>
<td>0.903</td>
</tr>
<tr>
<td>Job Satisfaction ( Y₁ )</td>
<td>0.818</td>
</tr>
<tr>
<td>Employee Performance ( Y₂ )</td>
<td>0.915</td>
</tr>
</tbody>
</table>

In Table 2 above, it can be concluded that all variables meet composite reliability because they have values above 0.70 which meet the reliable criteria.
### R-Square

<table>
<thead>
<tr>
<th>Structural model</th>
<th>Dependent variables</th>
<th>R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Job Satisfaction</td>
<td>0.577</td>
</tr>
<tr>
<td>2</td>
<td>Employee Performance</td>
<td>0.534</td>
</tr>
</tbody>
</table>

**Calculation:**  
\[ Q_2 = 1 - (1 - R_1^2) \cdot (1 - R_2^2) \]

\[ Q_2 = 1 - (1 - 0.577) \cdot (1 - 0.534) = 1 - (0.423) \cdot (0.466) \]

\[ Q_2 = 1 - 0.1717 = 0.8282 \]

In Table 5.10 above, the results of the structural model evaluation prove that the value of \( Q_2 \) (0.8282) is close to 1. Thus the results of this evaluation provide evidence that the structural model has excellent goodness of fit model. These results can be interpreted that the information contained in the data 82.82 percent can be explained by the model, while the remaining 17.18 percent is explained by errors and variables that have not been contained in the model.

### Table 3: AVE and √AVE values

<table>
<thead>
<tr>
<th>Variables</th>
<th>AVE</th>
<th>√AVE</th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>X1</td>
<td>X2</td>
<td>Y1</td>
</tr>
<tr>
<td>Situational Leadership Style (X1)</td>
<td>0.872</td>
<td>0.933</td>
<td>1.000</td>
</tr>
<tr>
<td>Compensation (X2)</td>
<td>0.882</td>
<td>0.894</td>
<td>0.391</td>
</tr>
<tr>
<td>Job Satisfaction (Y1)</td>
<td>0.882</td>
<td>0.939</td>
<td>0.576</td>
</tr>
<tr>
<td>Employee Performance (Y2)</td>
<td>0.775</td>
<td>0.880</td>
<td>0.607</td>
</tr>
</tbody>
</table>

Table 3 shows that the four variables have AVE values above 0.5 and the value of √AVE is greater than the correlation coefficient between one variable and the other, therefore it can be concluded as follows.

### 4. RESULTS

**Hypothesis testing**

Table 4 shows the results of the hypothesis test which mentions all hypotheses accepted. The results of this hypothesis test inform support for H1 (T-Statistics> 1.96; \( \beta = 0.366 \)) in which situational leadership style has a significant positive effect on job satisfaction. Compensation has a significant positive effect on job satisfaction thus, H2 (T-Statistics> 1.96; \( \beta = 0.537 \)) is also supported. Situational leadership style was found to be significantly positive for employee performance thus, H3 (T-Statistics> 1.96; \( \beta = 0.339 \)) is accepted. Compensation has a significant positive effect on employee performance thus, H4 (T-Statistics> 1.96; \( \beta = 0.200 \)) is accepted. The last hypothesis, H5 (T-Statistics> 1.96; \( \beta = 0.329 \)) is accepted, indicating job satisfaction significantly has a positive effect on employee performance.

### Table 4: Direct Effect Testing Results

<table>
<thead>
<tr>
<th>Relations between Variables</th>
<th>Path</th>
<th>T statistic</th>
<th>Hypothesis</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Situational Leadership Style (X1) =&gt; Job Satisfaction (Y1)</td>
<td>0.366</td>
<td>3.787</td>
<td>H1</td>
<td>Significant</td>
</tr>
<tr>
<td>Compensation (X2) =&gt; Job Satisfaction (Y1)</td>
<td>0.537</td>
<td>6.910</td>
<td>H2</td>
<td>Significant</td>
</tr>
<tr>
<td>Situational Leadership Style (X1) =&gt; Employee Performance (Y2)</td>
<td>0.339</td>
<td>2.817</td>
<td>H3</td>
<td>Significant</td>
</tr>
<tr>
<td>Compensation (X2) =&gt; Employee Performance (Y2)</td>
<td>0.200</td>
<td>2.028</td>
<td>H4</td>
<td>Significant</td>
</tr>
<tr>
<td>Job Satisfaction (Y1) =&gt; Employee Performance (Y2)</td>
<td>0.329</td>
<td>2.144</td>
<td>H5</td>
<td>Significant</td>
</tr>
</tbody>
</table>

**Mediation Role**

Hair et al., (2010) has provided guidelines for examining variable mediation roles, including; (a) Check the direct effect of the independent variable on the dependent variable in the model by involving mediating variable. (b) Examine the influence of the independent variable on the dependent variable on the model without involving mediating variable, (c)
Examine the influence of the independent variable on the mediating variable, (d) Examine the influence of mediating variable on the dependent variable.

There is one variable that mediates the influence of situational leadership style and compensation for employee performance is called job satisfaction. Table 5 shows the results that job satisfaction significantly acts as partial mediation based on characteristic conditions; the influence of independent variables on mediating variables (c) and the influence of the mediating variable on the dependent variable (d) is significant, the direct effect of the independent variable on the dependent variable on the model involving the mediating variable job satisfaction (a) is significant, and the direct effect of the independent variable without involving mediating variable of job satisfaction (b) is significant, the variable job satisfaction plays a role as partial mediation.

Table 5: Recapitulation of Mediation Variable Test Results

<table>
<thead>
<tr>
<th>Variable Mediation of Job Satisfaction at:</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Situational Leadership Style (X1) =&gt; Employee Performance (Y2)</td>
<td>0.339 (Sig)</td>
<td>0.460 (Sig)</td>
<td>0.366 (Sig)</td>
<td>0.329 (Sig)</td>
<td>Partial Mediation</td>
</tr>
<tr>
<td>Compensation (X2) =&gt; Employee Performance (Y2)</td>
<td>0.189 (Sig)</td>
<td>0.380 (Sig)</td>
<td>0.537 (Sig)</td>
<td>0.329 (Sig)</td>
<td>Partial Mediation</td>
</tr>
</tbody>
</table>

Note: Significant (Sig) = T-statistic > 1.96 on α: 5%

5. DISCUSSION

All hypotheses in this study are supported thus it strengthens the results of previous empirical studies. The situational leadership style proved to have a significant positive influence on job satisfaction supporting various previous results conducted by Aryanti, (2014), Suryana et al., (2014), Satyawati dan Suartana, (2014).

The results of this study also support the findings of Sopiah, (2013), Salisu et al., (2017), Mabaso and Dlamini, (2017) which show compensation has a significant direct effect on job satisfaction. The leadership style proved to have a significant positive influence on employee performance supporting various findings of Slamet, et al., (2013), Wahyuningsyah, et al., (2017), Sandra, et al., (2017) and Ghazzawi, et al., (2017). Likewise for a number of previous findings Muttaqien (2014), Astuti and Sudharma (2012), Tindow et al., (2014), that compensation has a significant positive effect on employee performance. As well as the results of this study also support the findings of Admojo, (2012) Putri, (2013), Afshar and Doosti, (2016) which states that job satisfaction has a significant positive effect on employee performance.

Based on the results of testing the hypotheses described above, the research results model is arranged as presented in Figure 1 below.

Figure 1: Research Results Model
6. CONCLUSION

Managerial and research implications

Based on the discussion of the results of the study, it can be concluded that the influence of situational leadership style variables and compensation on job satisfaction as well as employee performance are described as follows:

a. Situational leadership style has a positive and significant effect on employee job satisfaction. It means that the better situational leadership style is applied in PT Bank Mandiri Taspen branch office Melati Denpasar will be able to increase job satisfaction of the employees. Likewise, on the contrary the worse the application of situational leadership style will reduce job satisfaction of the employee.

b. Compensation has a positive and significant effect on employee job satisfaction. It means that the better compensation given to employees at PT Bank Mandiri Taspen branch office Melati Denpasar will be able to increase job satisfaction of the employees. Likewise on the contrary, the worse the compensation for employees will reduce job satisfaction of the employee.

c. Situational leadership style has a positive and significant effect on employee performance. It means that the better situational leadership style applied at PT Bank Mandiri Taspen branch office Melati Denpasar will be able to improve performance of the employees. Likewise on the contrary, the worse the application of situational leadership style, the employee's performance will also decrease.

d. Compensation has a positive and significant effect on employee performance. It means that the better compensation given to employees at PT Bank Mandiri Taspen branch office Melati Denpasar will be able to improve the performance of the employees. Likewise on the contrary, the worse the compensation is given to employees, the employee's performance will also decrease.

e. Job satisfaction has a positive effect on employee performance at PT Bank Mandiri Taspen branch office Melati Denpasar. It means that employees who have a high level of job satisfaction, the performance of the employees will also increase. Likewise on the contrary, the lower level of employee's job satisfaction, the employee's performance will decrease as well.

Suggestions

Based on these conclusions, the suggestions that can be given in this study are as follows:

a. In optimizing employee performance achievement at PT Bank Mandiri Taspen branch office Melati Denpasar, should pay more attention to and improve the implementation of better employee performance. Therefore, efforts need to be made to develop employee performance by prioritizing the application of situational leadership styles that prioritize the indicator of "telling", which is not in accordance with the reality that has occurred; employees respond more to the implementation of participating, which is indicated by the highest average score.

b. Giving compensation to employees by PT Bank Mandiri Taspen branch office Melati Denpasar has not been well seen from the highest outer loading value on the indicator of getting a salary according to work that has not been in accordance with reality in the field. The results of this study provide input to the company to pay more attention to the compensation of incentives that are in accordance with the sacrifice to employees but still strive for a fair salary in accordance with work, benefits in accordance with expectations, and adequate facilities to further improve employee performance.

c. In improving employee performance, there needs to be a sense of job satisfaction felt by employees. By paying attention to aspects of satisfaction with promotions received by employees that are in accordance with the analysis but different from the responses of respondents where the work environment gets the highest average value of the five indicators of job satisfaction. The results of this study provide input to companies to pay more attention to satisfaction with promotions received by employees to be able to increase job satisfaction but still strive for the work itself, satisfaction with salary, the job itself, the ability of superiors and the work environment thus employee performance increases.

Limitations and future research

A number of limitations that can be shown in this study is; this study uses a limited sample of companies thus the ability to generalize the truth of this research results is still very limited. Further research is recommended to use several similar companies therefore they can explain the meaning more broadly.
REFERENCES


Appendix A: Figure of PLS Process Results