

The Influence of Transformational Leadership and Compensation on Employee Performance Through Work Motivation in The Era of Digitalization PT. Palopo Branch Pawnshop

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Abstract

This study aims to analyze the influence of transformational leadership and compensation on employee performance through work motivation in the digitalization era at PT Pegadaian Palopo Branch. The research background is based on the importance of visionary leadership roles and fair compensation in improving employee motivation and performance, especially in the midst of digital change dynamics. This study uses a quantitative approach with a survey method of 100 respondents who are employees of PT Pegadaian Palopo Branch. Data was collected using a questionnaire based on the Likert scale, then analyzed using the Structural Equation Modeling (SEM) method assisted by SmartPLS. The results of the study show that transformational leadership has a significant effect on employee performance, but it does not affect work motivation. On the contrary, compensation has been shown to have a significant effect on both work motivation and employee performance. Work motivation itself has a positive effect on employee performance and acts as a mediator on the relationship between compensation and performance, but does not mediate the relationship between transformational leadership and performance. These findings confirm that a combination of effective leadership and an adequate compensation system is a key factor in driving improved employee performance in the digitalization era.

Keywords: Transformational_Leadership; Compensation; Work_Motivation; Employee_Performance; Digitization.

1. Introduction

Transformational leadership is a leader's leadership model that tends to motivate employees to work better and improve good behavior to help transform between individuals and agencies. Transformational leaders are charismatic leaders who have an important and strategic role in bringing the name of the agency to achieve its goals. Transformational leadership that features a good leader is expected to increase employees' efforts to achieve optimal work results. This leadership is one of the leadership that is starting to be taken into account for its usefulness in dealing with changes in the agency. Because transformational leadership concerns how to encourage others to develop and produce performance above expected standards [1].

In addition to transformational leadership, encouragement or motivation is also important in efforts to improve employee performance. The motive of work motivation is a driver for the needs of an employee that must be met so that employees can also adapt to the environment. Therefore, the motivation factor must also be considered by an agency, because motivation is a means that can encourage employees to complete the tasks given. One of the motivational theories related to individual needs is Maslow's theory. Maslow argues that a person works based on needs to meet the various needs of employees [2].

Compensation is a reward for services provided by the agency for the hard work and contributions that have been made. Compensation is a reason for employees to stay on the job because employee compensation can meet the needs of life, both primary and secondary, so companies must pay close attention to the importance of compensation for employees. Therefore, the company must be able to maintain employee performance so that employee morale remains stable, one way to maintain employee performance morale is to provide good compensation for employees [3].

Success in determining proper compensation will determine how the quality of human resources work, which will directly relate to the effectiveness of employee objectives and the efficiency of the agency's budget, and will determine how an agency survives in an increasingly competitive business environment. Adequate compensation will also affect the performance displayed by employees. When compensation is not in accordance with the expectations of employees, what happens is subtle rejection to strong rejection through demonstrations [4].

This requires agencies to be able to create high employee performance to develop agencies. Of course, this requires the role of Human Resources in competitive advantage. This means that the agency must be able to improve the results of its work better in the future. Improving employee performance can also be realized by providing compensation and maximum work attitudes, as well as other aspects that can affect performance [4].

An agency is formed to achieve a common goal. Success in achieving goals can be seen from the results of the agency's performance which cannot be separated from the performance of its human resources. Performance is an overview of the level of achievement in the implementation of an activity/program/policy in realizing the goals, objectives, mission, and vision of the agency contained in the strategic planning of an organization. To produce optimal performance in the company can be measured from the results of the work that has been done compared to the standards that have been set by the company/government agency, because the success of an agency is influenced by employee performance [5].

A deeper understanding of employee motivation is essential for managers and agency leaders. With this understanding, they can design more effective strategies to improve their team's well-being and performance. Training and development that is also focused on understanding motivation in the agency can increase employee engagement and work motivation. Additionally, by creating a supportive environment where employees feel valued and supported by improving their intrinsic motivation and, ultimately, performance on the agency as a whole. The phenomenon of digital transformation and globalization requires companies/agencies to adapt to a dynamic and uncertain environment, making motivation in agencies a key factor in maintaining employee performance. This study shows that agencies with adaptive and innovative motivation are more successful in maintaining employee performance compared to those with rigid and traditional cultures [6].

Each employee has different needs, so the motivation needed by employees is different from each other. But if it already exists in an agency, the agency must be able to meet the needs of employees. Employee motivation must remain high to achieve predetermined work goals. To make the definition of motivation clearer, there are several expert opinions on the definitions of motivation, including: Herzberg in [7] stated that: "motivation is an extrinsic

factor that comes from outside the self that also determines a person's behavior in a person's life". [8], defines that, "Motivation is a series of attitudes and values that influence individuals to achieve specific things according to individual goals". [9] that motivation is defined as an attitude of leaders and employees towards the work situation in their organization. Those who are positive about their work situation will show high work motivation and conversely if they are negative about their work situation will show low work motivation [5].

The era of digitalization has brought significant changes in various aspects of life, including in the work environment. Digitalization allows for the integration of advanced technology in company operations, which impacts work design and employee performance. This phenomenon can be seen from how companies are now adopting more flexible work systems, utilizing information technology, and implementing remote or hybrid work models. These changes not only require employees to have adequate digital skills but also require a job design that can support their work motivation. However, in the midst of these developments, problems arise related to how job design can affect employee performance. Some employees may find it difficult to adjust to rapid changes, which can lead to decreased productivity and job satisfaction [10].

This research was conducted at PT. Pegadaian Palopo Branch, as one of the work units that have implemented digital services, to analyze the extent to which transformational leadership and compensation affect employee performance through work motivation.

Based on theoretical studies and previous research, the conceptual framework of the research was prepared as follows: transformational leadership (X1), and compensation (X2), it is assumed that they affect employee performance (Y), either directly or through work motivation (Z) as a mediating variable.

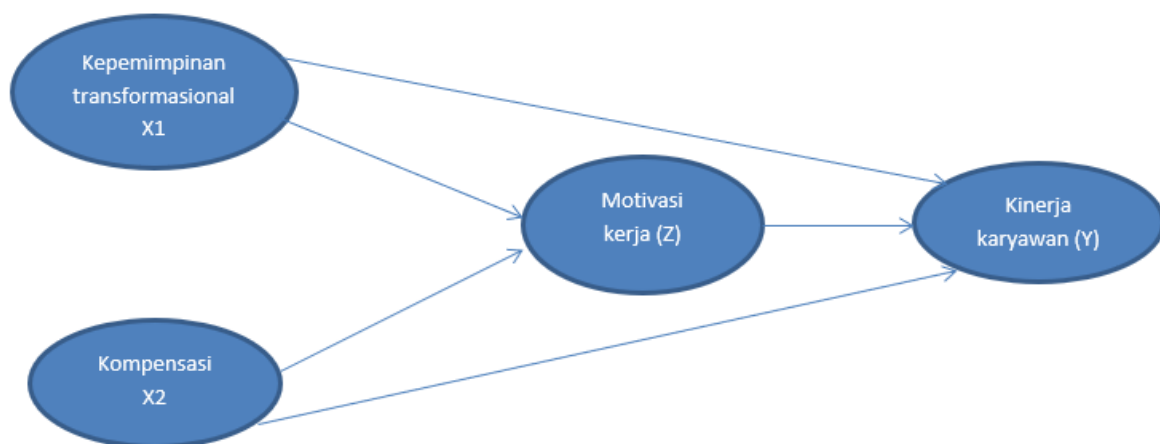


Figure 1. Conceptual Shells

2. Methodology

2.1. Types of Research

This research is a quantitative research with an associative nature, as it aims to analyze the relationship and influence between variables: transformational leadership, compensation, work motivation, and employee performance.

2.2. Research Approach

The approach used is a quantitative approach with a survey method. Primary data were collected through a Likert scale questionnaire of 1–5, then statistically analyzed using SmartPLS-assisted Structural Equation Modeling (SEM).

2.3. Population and Sample

The research population is all employees of PT Pegadaian Palopo Branch which totals 100 people. The sampling technique uses purposive sampling so that all members of the population are made respondents. Of the 100 questionnaires distributed, there were 100 respondents that were valid and could be processed.

2.4. Data Collection Techniques

Data is collected by:

1. A closed-ended questionnaire based on the Likert scale (1 = strongly disagree, 5 = strongly agree).
2. Direct deployment to employees, covering aspects of transformational leadership, compensation, work motivation, and employee performance.
3. The research instrument was compiled based on the theoretical indicators of each variable, then tested for validity and reliability.

2.5 Variable Operations

X1 = Transformational Leadership Indicators: charisma, inspiration, intellectual stimulation, individual attention.

X2 = Compensation Indicators: salary, benefits, incentives, fairness, compensation satisfaction.

Z = Work Motivation Indicators: internal drive, responsibility, perseverance, work attachment.

Y = Employee Performance Indicators: quality, quantity, punctuality, effectiveness, cooperation.

2.6 Validity test

Convergent validity: all indicators have an outer loading > 0.70 (0.700–0.888).

AVE (Average Variance Extracted): ranges from 0.586–0.707, higher than the 0.50 limit.

Discriminant validity (Fornell–Larcker): the root of each construct AVE is higher than the correlation between variables.

2.7 Reliability Test

Reliability of the instrument was tested by looking at Cronbach's Alpha and Composite Reliability (CR) values. The criteria used were Cronbach's Alpha ≥ 0.60 and CR ≥ 0.70 . The Average Variance Extracted (AVE) value was also checked, with a ≥ 0.50 requirement to indicate the internal consistency of the instrument.

2.8 Analysis Techniques

The data was analyzed using SEM-PLS with the help of the SmartPLS application. The analysis steps include:

1. Evaluation of measurement models (outer models) to test the validity and reliability of indicators.

2. Evaluate the structural model (inner model) by looking at the R^2 value, path coefficient, and significance test through bootstrapping.
3. Hypothesis test to determine the direct and indirect influence (mediation) between variables.

3. Result and Discussion

3.1. Result

a. Respondent Overview

This study involved 100 respondents who were employees of PT Pegadaian Palopo Branch in the digitalization era. The selection of respondents was carried out by considering their direct involvement in the company's operational activities, both in the fields of service, administration, and management. Respondents came from various gender backgrounds, age, education level, length of work, income, and family status. This information on respondent characteristics provides a comprehensive picture of employee demographics, as well as the basis for assessing how transformational leadership, compensation, and work motivation affect employee performance.

Table 1. Respondents Characteristics

Characteristics	Category	Quantity (n)	Percentage (%)
Gender	Man	62	62%
	Woman	38	38%
Age	20–30 years	28	28%
	31–40 years	42	42%
	41–50 years	20	20%
	> 50 years	10	10%
	Final Education	High School/equivalent	40
	Diploma	30	30%
	Bachelor	25	25%
	Postgraduate	5	5%
Long Time Working	< 5 years	22	22%
	5–10 years	50	50%
	> 10 years	28	28%
Revenue per Month	< IDR 4,000,000	30	30%
	IDR 4,000,000 – IDR 6,000,000	50	50%
	> IDR 6,000,000	20	20%
Family Status	Marry	68	68%
	Unmarried	32	32%

b. Uji Measurement Model / Outer Model

The results of the study using the PLS application showed that all indicators in the variables of Transformational Leadership (X1), Compensation (X2), Work Motivation (Z), and Employee Performance (Y) had an outer loading value above 0.70, which ranged from 0.700 to 0.888, so that all indicators were declared valid.

Furthermore, the model was also declared reliable because Cronbach's Alpha value was in the range of 0.825 to 0.897, greater than 0.60. The Composite Reliability (CR) value also met the criteria with a range of 0.876 to 0.924, which indicates the internal consistency of the instrument is excellent.

In addition, the convergent validity test through the Average Variance Extracted (AVE) value showed adequate results with a range of 0.586 to 0.707, above the minimum limit of 0.50. Thus, it can be concluded that all constructs in this study are valid and reliable.

Tabel 2. Uji Measurement Model / Outer Model

Variabel	Item	L	A	CR	AVE
Leadership Transformational (X1)	KT1	0.796	0.865	0.901	0.647
	KT2	0.831			
	KT3	0.888			
	KT4	0.795			
	KT5	0.700			
Compensation (X2)	KP1	0.827	0.897	0.924	0.707
	KP2	0.828			
	KP3	0.856			
	KP4	0.842			
	KP5	0.852			
Work Motivation (Z)	MK1	0.781	0.825	0.876	0.586
	MK2	0.811			
	MK3	0.719			
	MK4	0.732			
	MK5	0.780			
Employee Performance (Y)	KK1	0.814	0.874	0.908	0.666
	KK2	0.879			
	KK3	0.841			
	KK4	0.818			
	KK5	0.719			

Description: KT = Transformational Leadership, KP = Compensation, MK = Work Motivation, KK = Employee Performance. Source: SmartPLS Processed Data, 2025.

c. Discriminatory Validity

To test the validity of the discriminant, the Fornell-Larcker criterion was used, which is by comparing the square root value of AVE (shown at the diagonal value) with the correlation between constructs (off-diagonal values).

Based on the results of the analysis in Table 3, it can be seen that the root value of AVE of each construct is higher than the correlation between other constructs. For example, in the Transformational Leadership variable (X1) the diagonal value is 0.804, greater than the correlation with Employee Performance (0.825), Compensation (0.858), and Work Motivation (0.661). Similarly, for other constructs, such as Compensation (X2) with a diagonal value of 0.841, which is higher than its correlation with other constructs (0.830 and 0.743). The same is also true for Work Motivation (Z) with a diagonal value of 0.765 which is higher than the correlation with other constructs (0.782; 0.743), and Employee Performance (Y) with a diagonal value of 0.816 which is greater than the correlation with other constructs (0.830; 0.825; 0.782).

Thus, it can be concluded that all constructs have a better ability to explain their respective indicators compared to other constructs. Therefore, the discriminant validity of this model is met.

Tabel 3. Discriminant Validity (Fornell-Larcker Criterion)

Construct	(X1)	(Y)	(X2)	(Z)
Transformational Leadership (X1)	0,804			
Employee Performance (Y)	0,825	0,816		
Compensation (X2)	0,858	0,830	0,841	
Work Motivation (Z)	0,661	0,782	0,743	0,765

Keterangan: X1 = Transformational Leadership, X2 = Compensation, Z = Work Motivation, Y = Employee Performance.

d. Uji Hypothesis

Based on the results of the analysis using SEM-PLS, it was obtained that the Transformational Leadership variable (X1) had a positive and significant effect on Employee Performance (Y) with a path coefficient value of 0.395, T-statistic 4.952, and P-value of 0.000. This shows that the higher the transformational leadership, the better the employee performance.

However, Transformational Leadership (X1) → Work Motivation (Z) showed a non-significant influence, with a path coefficient of 0.091, a T-statistic of 0.774, and a P-value of 0.439. This means that transformational leadership has not been able to directly increase employee work motivation.

Meanwhile, the Compensation variable (X2) has a positive and significant effect on Employee Performance (Y) with a path coefficient of 0.232, T-statistic 2.306, and a P-value of 0.022. In addition, Compensation (X2) also has a very significant effect on Work Motivation (Z), with a path coefficient of 0.665, T-statistic 6.023, and P-value of 0.000. This shows that the better the compensation given, the higher the employee's motivation at work.

Furthermore, the Work Motivation variable (Z) was proven to have a positive and significant effect on Employee Performance (Y) with a path coefficient value of 0.349, T-statistic 4.914, and P-value of 0.000. This means that work motivation is an important factor that can improve employee performance.

In the mediation effect testing, it was found that the Transformational Leadership (X1) → Work Motivation (Z) → Employee Performance (Y) pathways showed insignificant influences, with a path coefficient value of 0.032, T-statistic 0.781, and P-value 0.435. This indicates that work motivation does not mediate the influence of transformational leadership on employee performance. In contrast, the Compensation (X2) → Work Motivation (Z) → Employee Performance (Y) pathways showed significant influences, with a path coefficient value of 0.232, T-statistic 3.679, and a P-value of 0.000. Thus, work motivation plays a mediator that strengthens the influence of compensation on employee performance.

Tabel 4. Hypothesis Test

Hipotesis	Hubungan	(b)	T-Statistic	P-Value	Information
H1	(x1) → (Y)	0,395	4,952	0,000	Accepted
H2	(X1) → (Z)	0,091	0,774	0,439	Rejected
H3	(x2) → (Y)	0,232	2,306	0,022	Accepted
H4	(X2) → (Z)	0,665	6,023	0,000	Accepted
H5	(Z) → (Y)	0,349	4,914	0,000	Accepted
H6	(X1) → Z → Y	0,032	0,781	0,435	Rejected
H7	(X2) → Z → Y	0,232	3,679	0,000	Accepted

Remarks: X1 = Transformational Leadership, X2 = Compensation, Z = Work Motivation, Y = Employee Performance. Source: SmartPLS Processed Data, 2025

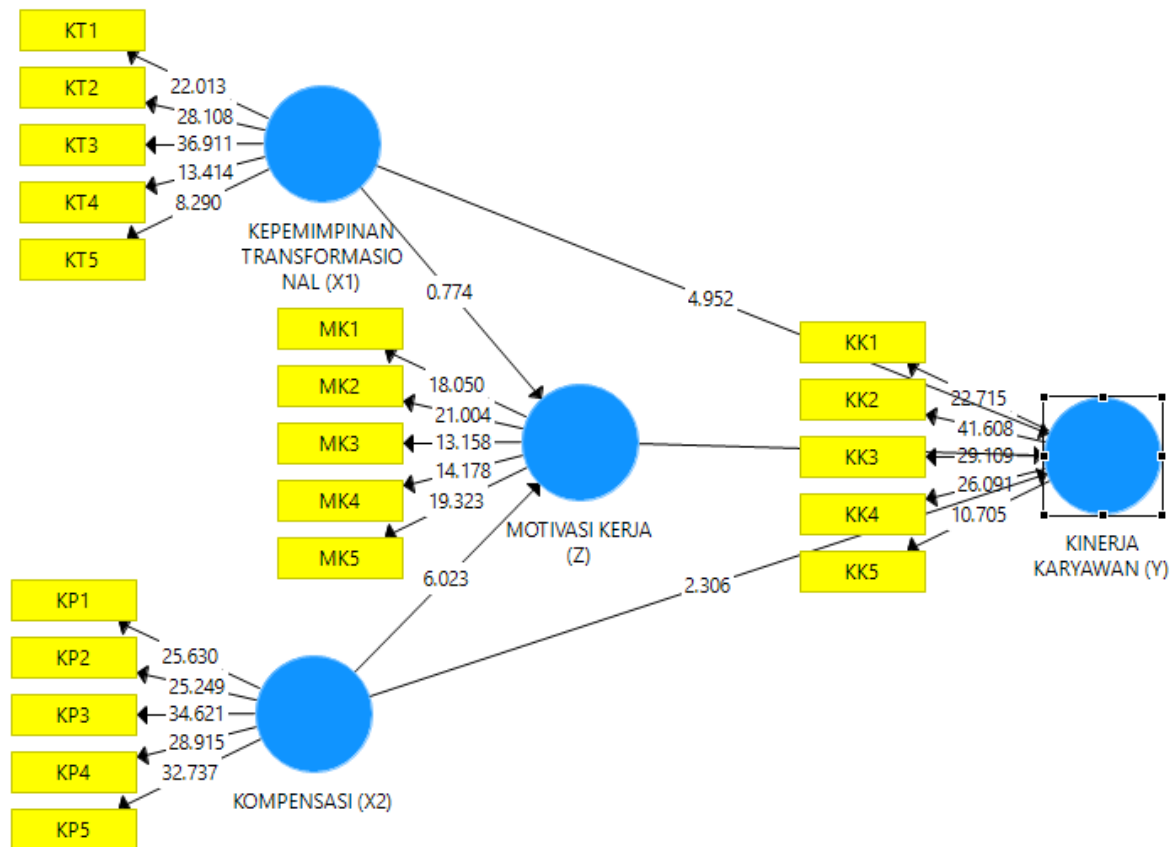


Figure 2. SEM-PLS Analysis

3.2. Discussion

The results of this study show that Transformational Leadership (X1) and Compensation (X2) have a positive influence on Work Motivation (Z) and Employee Performance (Y). This means that the better the leadership style applied and the more optimal the compensation system provided, the higher the employee's work motivation which ultimately has implications for improving performance.

First, Transformational Leadership (X1) has been shown to have a significant effect on Employee Performance (Y) (H1), but not significantly on Work Motivation (Z) (H2). This shows that leadership shown through vision, inspiration, and example can directly improve performance, but it is not strong enough to encourage internal work motivation.

Second, Compensation (X2) has been proven to have a significant effect on both Employee Performance (Y) (H3) and Work Motivation (Z) (H4). With decent compensation in the form of salaries, benefits, and incentives, employees feel more valued and motivated to work more effectively, thus having an impact on more optimal performance.

Third, Work Motivation (Z) has a positive and significant effect on Employee Performance (Y) (H5). This means that the higher the work motivation you have, the greater the performance achievement obtained. Work motivation is an internal drive that makes employees more focused, productive, and committed to their work.

Furthermore, mediation testing showed that Work Motivation (Z) did not mediate the influence of Transformational Leadership (X1) on Employee Performance (Y) (H6), but was shown to significantly mediate the relationship between Compensation (X2) and Employee

Performance (Y) (H7). In other words, compensation has a direct effect, but also indirectly through increased work motivation.

Overall, this study shows that Compensation is the dominant factor in increasing motivation as well as performance, while Transformational Leadership plays a more direct role in improving work outcomes. Organizations are not only emphasizing leadership, but also need to strengthen a fair and transparent compensation system so that employee motivation and performance can be maintained on an ongoing basis.

4. Conclusion

This study concludes that transformational leadership and compensation play an important role in improving employee performance at PT Pegadaian Palopo Branch in the digitalization era. The results of the analysis show that transformational leadership has a significant effect on employee performance, but it does not affect work motivation. This indicates that a leadership style that is visionary, inspiring, and able to set an example encourages direct work results rather than building internal motivational drive. On the other hand, compensation has been shown to have a significant effect on both work motivation and employee performance, so compensation is the dominant factor that not only provides financial satisfaction but also triggers work morale. Work motivation itself has a significant effect on employee performance and has been shown to mediate the relationship between compensation and performance, but does not play a mediator in the relationship between transformational leadership and performance. Thus, the combination of effective leadership and an adequate compensation system is the key to driving optimal employee performance.

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