

The Influence of Transformational Leadership and Compensation on Sustainable Employee Performance Mediated by Work Motivation (Study of Pt. Sumber Indah Lestari)

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ABSTRACT

This study aims to examine and analyze the influence of transformational leadership and compensation on sustainable employee performance, with work motivation serving as a mediating variable, in the context of PT. Sumber Indah Lestari. A quantitative approach was employed using Structural Equation Modeling–Partial Least Square (SEM-PLS) as the analytical method. Data were gathered through questionnaires distributed to 150 store leaders (firstmen) who participated as respondents. The findings indicate that transformational leadership has a positive and significant impact on work motivation and directly affects sustainable employee performance. Compensation also demonstrates a significant influence on work motivation but does not have a direct significant effect on sustainable performance. However, work motivation is proven to significantly mediate the relationship between both transformational leadership and compensation with sustainable employee performance. These results highlight the importance of inspirational, supportive, and visionary leadership, reinforced by a fair and transparent compensation system that aligns with employee contributions. The managerial implications of this research emphasize the need to strengthen transformational leadership practices at the operational level and to review and improve compensation systems to better motivate employees and enhance long-term productivity. Furthermore, this study contributes to the theoretical development of sustainable employee performance, particularly in the modern retail sector in Indonesia, by integrating motivation as a key mediating factor in organizational performance strategies.

Keywords: Transformational Leadership, Compensation, Work Motivation, Sustainable Employee Performance, SEM-PLS

INTRODUCTION

The success of an organization is largely determined by the quality of the workforce it has. Employees play a role not only as policy implementers but also as drivers of innovation and agents of change. In the context of increasingly competitive global competition, companies that manage their employees well will find it easier to achieve strategic goals (Tariq, 2025; Ujam, 2025). Therefore, employees are required to be ready to face challenges arising from technological developments, policy changes, market dynamics, and world economic conditions. With the support of resilient and adaptive employees, organizations can continue to survive, rise, and compete sustainably (Jamal, 2025; Mandlik et al., 2025).

Bass (1985) in Umro'atin, Patoni, & Maunah (2023) explains that transformational leadership functions to expand the mindset of employees and provide encouragement to exceed set work results through the provision of inspiration, intellectual stimulation, and individual attention (Yuli et al., 2023). Sustainable work results are born from the real efforts of employees, even though the spark plugs are not always directly visible (Handoko et al., 2021).

According to Rino et al. (2020), employee performance achievements are influenced by many factors, ranging from technical skills, knowledge, work design, individual characteristics, motivation, leadership style, managerial practices, organizational culture, work environment, employee relations, discipline, consistency, to dedication.

Abellia Permatasari & Siti Mujanah (2021) state that compensation includes awards in both financial and non-financial forms given for employee contributions. The right compensation scheme not only increases motivation but also becomes an important instrument in driving productivity. In the context of HR management, compensation is seen as an appreciation of employee loyalty as well as a strategy to attract and retain potential talent. A competitive compensation system can attract quality workforce and keep them on track longer, while also boosting motivation and work ethic (Merlinda Intan Fauziah, 2023; Rahman et al., 2025). Job satisfaction will also increase when employees feel valued, so loyalty to the organization will strengthen. Winata (2022) added that compensation includes salary, wages, and incentives that function as performance drivers. When compensation is considered fair, employees tend to work more effectively and responsibly (Vienna, 2022). Thus, compensation plays an important role in improving performance (Putra & Aprianti, 2020).

In addition to compensation, leadership significantly influences directing the organization towards the vision, mission, and goals set (Akuffo-Aduamah, 2025). Work motives are connecting factors that explain the relationship between transformational leadership and compensation to employee performance. Motivation is the internal and external drive encouraging a person to make an optimal contribution. Highly motivated employees are generally more focused, committed, and productive, so motivation is an important foundation for improving organizational performance (Kavitha, 2025).

PT. Sumber Indah Lestari, as a profit-oriented business company, was established in November 2012 under the auspices of Alfa Group Retail (Alfamart, Alfamidi, Lawson) through the DAN+DAN brand, with a focus on the distribution and sale of health and beauty products. As a labor-intensive company, store chains are the spearhead of achieving targets. Being profit-oriented, this is closely related to business target achievement. Store employees, as the spearhead, play a big role in this. Employee performance will manifest in achieving store profits. Thus, a good appraisal assessment will impact employee performance and ultimately store performance. The author deepens this analysis by taking employee appraisal data from the past three years. Based on the appraisal results, the description follows.

Table 1. Store Head Appraisal

<i>Rating</i>	2022		2023		2024	
	Sum	%	Sum	%	Sum	%
Extraordinary	11	4.72%	15	5.12%	12	3.80%
Very good	177	75.97%	204	69.62%	203	64.24%
Good	42	18.03%	68	23.21%	92	29.11%
Less	3	1.29%	5	1.71%	2	0.63%
Very Less	0	0.00%	1	0.34%	7	2.22%
Sum	233	100%	293	100%	316	100%

Source: PT. Sumber Indah Lestari

Based on Table 1, it can be seen that in 2022, with the number of firstmen or store heads at 233 people, 11 employees received an extraordinary assessment, accounting for 4.72%. In 2023, where the number of store heads increased to 293 people, the extraordinary rating also increased to 5.12%, an increase of 0.40%. However, in 2024, there was a decrease of 1.32% to 3.80%. In the Very Good category, in 2022, the number of employees with a Very Good rating was 177, which decreased by 6.34% in 2023 to 69.62%. In 2024, it further decreased by 5.38%, to 64.24%.

Good Category, it can be explained In 2022 the number of store heads is 293 people, of which the number of employees with a Good rating is 42 employees. Pa-da in 2023. There was an increase in the percentage of employees with this rating of 5.18% to 23.212%. In 2024, it will increase by 5.91%, to 29.11%.

Less category, where in 2022, the number of employees with a rating of Less was 1.29% of employees. In 2023. There was an increase in the percentage of employees with this rating from 0.42% to 1.71%. In 2024, it will decrease by 1.07%, to 0.63%. In the Very Less category, it can be explained in 2022, where there is no employee assessment with a Very Insufficient rating. But in 2023, there will be a percentage increase of 0.34%, while in 2024, there will be another increase of 1.87%, to 2.22%.

To get a more in-depth picture of the conditions in the field, especially related to labor, the author conducted interviews with two key sources at PT. Sumber Indah Lestari. The first resource person is the Branch Manager who acts as the branch leader, while the second resource person is the Operational General Manager who acts as the Branch Manager's direct supervisor. These two positions hold the main responsibility in ensuring smooth operations, human resource management, and the achievement of targets according to head office policies.

Based on Table 1.1, it can be seen that the achievement of store performance in the 2022–2024 period is not in line with the targets of Sales Per Day (SPD), Receipts Per Day (SPD), Average Purchase Customer (APC), and Gross Margin (GM) set by the company. This can be seen from the Sales Per Day (SPD) indicator obtained through a combination of Receipts Per Day (SPD) and Average Purchase Customer (APC). The average daily sales from 2022 to 2023 showed a slight growth of 0.49%. However, in the 2023–2024 period, this figure actually experienced a sharp decline of 4.35%. A similar condition can be seen in the Receipt Per Day (SPD), which reflects the number of daily transactions. From 2022 to 2023, this indicator decreased by 1.86%, then fell again by 2.98% in 2023–2024. Meanwhile, the performance of Average Purchase Customer (APC) or the average shopping value per consumer is relatively stable. In the 2022–2023 period, there was still an increase of 3.47%, but in 2023–2024 there was a decrease of 1.08%. The Gross Margin also showed fluctuations, namely an increase of 1.94% in 2022–2023, then decreased to 3.73% in 2023–2024 compared to the company's budget.

Furthermore, to further clarify the causes of employee performance, the author conducted a preliminary survey to find out the factors that affect employee performance. These various aspects are used as a reference in assessing employee per-forma (Rizki Amalia Putri et al., 2023). In the initial stage, a survey was conducted on a number of Store Heads as respondents, with the aim of identifying elements that can affect employee performance and at the same time being used as a basis for research. The Store Head has a strategic position because he is a leader at the store unit level. In practice, each store is led by a Store Head who oversees 3 to 7

crews, with the number adjusted based on store sales or a comparison between sales achievements and targets. A Store Head is responsible to the Area Coordinator or Supervisor who nurtures a minimum of 10 stores. Furthermore, the Area Coordinator is under the control of the Area Manager, and the Area Manager reports directly to the Branch Manager at the branch. The researcher conducted a pre-survey as the first step in understanding the permasalahan contained in the store.

Some researchers explain that the term transformation refers to the process of transforming something into a different form. This concept is the basis of transformational leadership, namely turning vision into reality, potential into achievement, and hidden into reality (Hartoyo et al., 2024). Thus, transformational leadership can be interpreted as a leadership style that focuses on creating and strengthening an inspiring, credible, and realistic vision of the future to be realized, especially for organizations that seek to develop and improve existing conditions (Giovani Grace et al., 2024).

Individuals led by transformational leaders tend to have higher motivation to achieve goals. They also show trust, respect, loyalty, and deep appreciation to their leaders. The results of Putra and Aprianti's (2020) research confirm that leadership contributes significantly to increasing job satisfaction. In a study entitled Research on the Impact of Leadership on Employee Job Satisfaction at PT. Pratama Abadi Industri, it was found that leadership style has a strong positive influence on increasing job satisfaction (Haryoto et al., 2024). Leaders are required to be able to understand the needs of employees because the right leadership has an impact on morale, satisfaction, job safety, and organizational performance. With the implementation of the appropriate leadership style, employees tend to feel satisfied and productivity increases. As a form of appreciation, the company provides rewards in the form of compensation. Alex S. Nitisemito (Nitisemito, 1992, cited in Economic Abstraction, 2000) emphasized that compensation is not only the main reason a person works, but also has a great influence on work morale and motivation. Therefore, a proper compensation system must be implemented so that the organization's goals are achieved effectively and efficiently. Research by Wulandari and Bagia also shows that motivation has a positive and significant effect on employee performance (Wulandari & Bagia, 2021). This study aims to examine and analyze the influence of transformational leadership and compensation on sustainable employee performance, with work motivation serving as a mediating variable, in the context of PT. Sumber Indah Lestari.

METHOD

According to Hamid, A. (2023), quantitative research tests hypotheses that have been established at the beginning and involve various forms of variables. The procedure is systematically compiled before collecting data in the form of numbers from accurate measurements (Hamid & Prasetyowati, 2023). The majority of these theories involve causality and deduction. The analysis is conducted using statistics, tables, or graphs, along with discussions related to the hypothesis. Thus, the research design is an overall representation of how the research will be conducted by the researcher to achieve the predetermined goals.

Data Collection Techniques

According to Bambang Sugeng, (2023: 296) data collection techniques are activities in order to dig up the necessary data known as data collection activities. In quantitative research, data collection is carried out using variable measurement instruments, therefore, the designation of data collection techniques generally also uses or follows the designation used in measurement techniques). This aims to make it easy for respondents to understand and measure the variables in question. Alternative answers are given on a Likert scale of 1 to 5, with the following scores:

Table 2. Category Scale Likert

Alternative Options	Weight
Strongly agree	5
Agree	4
Hesitation	3
Disagree	2
Strongly disagree	1

Source: Bambang Sugeng (2023: 226)

The steps of the data collection stage in this study are carried out to obtain the information needed for the discussion of the data used in the research. There are several techniques in collecting data, namely:

- 1) Primary Data: Primary data is data obtained directly from original sources, such as archives and sources who are used as respondents. This data was collected to answer research questions that were in line with the researcher's objectives. Primary data collection is carried out through direct surveys to the research site to obtain accurate data.
- 2) Data Seconds
 - a. Library Research: Secondary data whose data is obtained through literature review, namely to search for theories in the form of books, journals and search using access to internet technology facilities provided by the library.
 - b. The history, literature and profile of PT. Sumber Indah Lestari

Data Analysis Methods

Data analysis in this study was carried out using the Partial Least Square (PLS) method through Smart PLS software version 3.3. PLS is a method in Structural Equation Modeling (SEM) that has advantages over other SEM techniques in several aspects. SEM offers high flexibility for research that connects theory to data as well as performing path analysis on latent variables, making it a popular choice in the social sciences. PLS does not require multivariate normal distribution on the data (indicators with category, ordinal, interval, or ratio scales can be used in the same model) and does not require a large sample (Hardisman, 2021). PLS is not only used to confirm theories but also to explain the existence of relationships between latent variables. PLS is particularly suitable for prediction-based research because it can analyze data by examining relationships between latent variables. In addition, PLS can be used to test constructs formed by both reflective and formative indicators, something that covariance-based SEM cannot do because it can cause the model to become unidentifiable.

RESULTS AND DISCUSSION

Hypothesis Test

The hypothesis analysis used *a full model SEM* with *Smart PLS*, which not only confirmed the theory, but also tested the relationships between latent variables (Ghozali, 2021). The hypothesis acceptance criteria are determined through the *Path Coefficient* value in the inner model indicating that a hypothesis is considered acceptable if the statistical T-value is greater than the T-table of 1.96 ($\alpha = 5\%$).

Table 3. Hypothesis Test Results

Yes	Hypothesis	Original Sampel	T- Statistic	P- Value	Ket.
1	Transformational Leadership has a positive and significant effect on Work Motivation	0.288	4.013	0.000	Accepted
2	Compensation has a positive and significant effect on Work Motivation	0.505	8.402	0.000	Accepted
3	Transformational Leadership has a positive and significant effect on Sustainable Employee Performance	0.510	6.781	0.000	Accepted
4	Compensation has a positive and significant effect on employee performance	0.303	4.102	0.000	Accepted
5	Work motivation has a significant positive and significant effect on Continuous employee performance	0.229	2.679	0.000	Accepted
6	Transformational leadership has a positive and significant effect on employee performance through Work Motivation as a mediator	0.066	2.148	0.032	Accepted
7	Compensation has a positive and significant effect on performance employees continue through Work Motivation as mediation	0.116	2.634	0.009	Accepted

Based on this study, it shows that of the seven hypotheses, all have a positive and significant influence.

The Influence of Transformational Leadership on Work Motivation

The outer loading test showed that a valid transformational leadership indicator was able to represent the construct well. This proves that transformational leadership has a positive and significant effect on work motivation, so the first hypothesis (H1) is accepted. These findings are consistent with the research of Bass and Avolio (1994), who affirmed that transformational leadership is able to drive motivation through vision and inspiration, and Walumbwa et al. (2005), who found that such leadership styles increase employee intrinsic motivation.

The Effect of Compensation on Work Motivation

The results of the hypothesis test prove that compensation has a positive and significant effect on work motivation. This means that the better the compensation provided by the company, the higher the work motivation felt by employees. Thus, the second hypothesis (H2), which states the effect of compensation on work motivation, is accepted.

The Influence of Transformational Leadership on Sustainable Employee Performance

Based on the results of the outer loading test, the indicators on the transformational leadership variable were proven to be valid in representing the research construct. These findings confirm that transformational leadership has a positive and significant effect on sustainable employee performance. This means that the better the transformational leadership style applied, the higher the sustainable performance shown by employees.

The Effect of Compensation on Sustainable Employee Performance

Based on the results of the outer loading test, all indicators in the compensation variable met the validity criteria because they had values above the threshold of 0.50. This shows that compensation instruments are feasible to use in measuring research constructs. Furthermore, hypothesis testing proves that compensation has a positive and significant effect on sustainable employee performance. This means that the better the compensation system implemented by the company, the higher the motivation and commitment of employees in maintaining consistent and sustainable performance. These findings align with research by Putra & Sudibya (2018) and Lestari (2020), which showed that compensation plays an important role in improving employee performance in a sustainable manner.

The Effect of Work Motivation on Sustainable Employee Performance

Based on the results of the outer loading test, all indicators on the variables of work motivation and continuous employee performance mostly show values above the required minimum limit, so it can be concluded that these indicators are valid in representing the construct. This confirms that high work motivation can improve employee performance sustainably, because every aspect of motivation consistently tested makes a positive contribution to performance improvement. Thus, the H5 hypothesis, which states that work motivation has a positive and significant effect on the performance of sustainable employees, is acceptable.

Transformational Leadership has a Positive and Significant Effect on Sustainable Employee Performance through Work Motivation as a Mediator

Based on the results of the analysis, the sixth hypothesis (H6), which states that Transformational Leadership has a positive and significant effect on sustainable employee performance through work motivation as a mediating variable, is acceptable. This is shown by the outer loading value in the indicators of the Transformational Leadership and Work Motivation constructs that meet the validity criteria (> 0.5), so the research instrument is declared able to represent the variables well. These findings confirm that work motivation plays an important role as a mechanism that bridges the influence of transformational leadership styles on the continuous improvement of employee performance.

Compensation has a Positive and Significant Effect on Employee Performance through Work Motivation as Mediation

Based on the results of the outer loading test, all variables show valid values and are suitable for hypothesis testing. Thus, it can be concluded that the provision of appropriate compensation encourages increased work motivation, which ultimately contributes to achieving sustainable employee performance.

CONCLUSION

In the final phase of the thesis preparation, the study showed the following conclusions: Transformational leadership has a positive and significant effect on work motivation, indicating that the better the transformational leadership style applied, the higher the employee's work motivation. Compensation has a positive and significant effect on work motivation, meaning that a fair and appropriate compensation system can encourage employee morale. Work motivation has a positive and significant effect on sustainable employee performance, which means that the higher the motivation, the more optimal the performance produced. Transformational leadership has a positive and significant effect on sustainable employee performance, both directly and through the role of work motivation as a mediator. Compensation has a positive and significant effect on employee performance through work motivation as a mediating variable, making motivation an important factor that strengthens the influence of compensation on performance. Among the variables, the one with the most positive and significant effect on improving employee performance is compensation, while the variable with the weakest influence is transformational leadership.

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