

Transformational Leadership, Compensation, Work Environment, and Employee Performance: The Mediating Role of Job Satisfaction

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ABSTRACT

This study scrutinizes the link between transformational leadership, compensation, work environment, and employee performance. In addition, job satisfaction was also investigated as a mediating variable. A total of 57 employees of Perum Perhutani Kebumen were involved in the survey from September 2023 to November 2023. Data analysis in this study was carried out using Smart Partial Least Squares (PLS) 3rd version. Questionnaires were employed in the survey process. The result revealed that transformational leadership and compensation display positively affect employee performance. In contrast, this study also indicates that the non-physical environment has an insignificant effect on job satisfaction and employee performance. Furthermore, based on the specific indirect effect, this study also found that job satisfaction shares a mediating effect in the connection between transformational leadership and employee performance. Job satisfaction also has a mediating effect on the compensation-employee performance connection. This research suggests both practical and theoretical implications regarding how to improve employee performance.

Keywords: Compensation; Employee Performance; Job Satisfaction; Transformational Leadership; Work Environment

INTRODUCTION

In the current era of globalization, intense competition among companies necessitates them to retain their assets to face this competition effectively. One of the assets that receives considerable attention is human resources. Organizations must consistently manage and emphasize human resources' excellence and quality to achieve the desired performance. The capability of human resources is reflected in their performance. Performance is generally defined as the quality and quantity of work an employee achieves in carrying out their responsibilities. A company's success in improving its performance heavily relies on the quality of its human resources in its work or on the performance of employees. Employee performance is the achievement of an individual or group based on their authority and responsibilities aligned with the organization's goals efficiently and effectively. An employee's performance can be measured by several aspects, such as quality, quantity, timeliness, effectiveness, and independence (Yuniarti et al., 2021).

However, past studies report that maintaining employee performance is challenging, requiring continuous effort and attention from organizations. The modern workplace's dynamic nature, technological changes, and evolving industry trends pose significant hurdles. Additionally, balancing work and personal life is crucial for employee well-being and motivation, necessitating employer support. Continuous training and development are essential for enhancing skills and performance but demand significant investment. Engaging employees through effective communication, recognition, and opportunities for involvement is vital, as is managing diversity and fostering inclusivity. Fair and objective performance evaluation, positive workplace relationships, and competitive compensation and benefits sustain employee motivation and satisfaction. Addressing these challenges necessitates a strategic approach and ongoing commitment from organizational leaders to create a supportive environment where employees can thrive and perform optimally.

This present study aimed to explore the determinants of employee performance focused on transformational leadership, compensation, and work environment. This research was particularly motivated by the fact that there were contradictory findings revealed in the past literature. For example, some studies found that a non-psychical environment has an insignificant effect on employee performance (Fauziyyah & Rohyani, 2022; Fitriani et al., 2019). In line, past research also found that transformational leadership and compensation have not significantly impact employee performance (Ritaudin & Mukhsin, 2018; Anthonia et al., 2019; Sembiring et al., 2022; Rianda & Winarno, 2022). Therefore, this study focused on scrutinizing the biased link between transformational leadership, compensation, work environment, and employee performance.

This research aims to offer practical guidance to organizations seeking to optimize workforce productivity by deciphering the intricate interplay between leadership styles, compensation schemes, and workplace conditions. Additionally, it contributes theoretically by scrutinizing potential biases in existing literature and refining models of organizational behavior. By shedding light on these associations, the study lays the groundwork for the development of more nuanced frameworks that account for contextual factors and interaction effects. Ultimately, its findings could inform strategic decision-making in organizational management and pave the way for future research endeavors aimed at deepening scholarly understanding of employee performance dynamic

LITERATURE REVIEW

The Impact of Transformational Leadership on Job Satisfaction

The impact of transformational leadership on job satisfaction is a significant area of study in organizational management. Transformational leadership is characterized by its ability to inspire and motivate employees to work towards a shared vision, which in turn can positively influence job satisfaction. Research has consistently shown that transformational leadership is positively correlated with job satisfaction, as it fosters a sense of purpose and fulfillment among employees (Sazly & Ardiani, 2019). Transformational leaders are known for their ability to articulate a clear vision, intellectually stimulate their subordinates, and attend to individual differences among people. This approach not only motivates employees to work towards the organization's goals but also encourages them to take ownership of their roles and responsibilities. The positive correlation between transformational leadership and job satisfaction is well-established in the literature, with studies demonstrating that transformational leadership is positively related to attitudes towards one's job and work outcomes. Different leaders have different ways of guiding their teams because of their unique leadership styles. Research shows that good transformational leadership boosts job satisfaction. This means that when leaders are good at inspiring change, employees tend to be happier with their jobs, but when leadership falls short, job satisfaction decreases.

H1: Transformational leadership has a positive influence on job satisfaction

The Influence of Compensation on Job Satisfaction

Establishing a compensation system is crucial for appreciating, enhancing job satisfaction, and developing employees (Rianda & Winarno, 2022). Compensation refers to the rewards or benefits provided by an organization to employees for completing tasks or achieving set standards or targets. Financial compensation, such as salary and bonuses, is a crucial aspect of job satisfaction. Higher financial compensation has been linked to increased job satisfaction, as it directly addresses the economic needs of employees. Non-financial compensation, like benefits, training, and recognition, also plays a vital role in job satisfaction. These forms of compensation can enhance job satisfaction by providing a sense of fulfillment and appreciation beyond monetary rewards. Previous research has shown that compensation positively affects job satisfaction. Both financial and non-financial compensation impact job satisfaction, meaning that when employees receive good compensation, their job satisfaction tends to increase. In other words, higher financial and non-financial compensation leads to higher job satisfaction.

H2: Compensation has a positive influence on job satisfaction

The Influence of Non-Physical Work Environment on Job Satisfaction

The non-physical work environment is a crucial concept for employees as it supports them in completing their tasks effectively, thereby helping achieve organizational goals. A conducive non-physical work environment directly impacts employees by enhancing their job satisfaction. Conversely, an inadequate non-physical work environment can decrease employee job satisfaction. Studies have demonstrated that a positive non-physical work environment is positively correlated with job satisfaction. For instance, a study found that the non-physical work environment had a significant positive effect on job satisfaction, indicating that a better non-physical work environment leads to higher job satisfaction. Similarly, another study showed that the non-physical work environment had a significant influence on job satisfaction, suggesting that a positive non-physical work environment is crucial for enhancing job satisfaction. Previous researchers (Ariani

& Sulistiyani, 2020; Putri, 2022) have demonstrated the significant influence of the non-physical work environment on job satisfaction. This suggests that a better non-physical work environment leads to higher employee job satisfaction, while a poorer environment results in decreased job satisfaction.

H3: Non-physical work environment has a positive influence on job satisfaction

The Influence of Transformational Leadership on Employee Performance

Regardless of the leadership style applied, it should embody transformational characteristics, enabling the transformation of ideas into reality and influencing subordinates' behavior or personality traits. A leader plays a crucial role as a dynamic force that motivates, inspires, and coordinates employees to achieve goals (Setyawati et al., 2023). Improved employee performance leads to progress in a competitive and unstable business environment (Shalma, 2024). Inspirational motivation involves developing and expressing a vision, preparing challenging goals for employees, and encouraging them to strive for excellence. Intellectual stimulation involves reassessing current assumptions, customs, and beliefs in an organization to recommend more novel ideas and ways of accomplishing tasks. Individualized consideration involves focusing on individuals' needs for development and achievement while understanding them as mentors or coaches. Previous research has shown the significant impact of transformational leadership on employee performance, indicating a positive relationship (Sembiring et al., 2022). This suggests that better transformational leadership leads to enhanced performance, while poor transformational leadership results in decreased performance.

H4: Transformational leadership has a positive influence on employee performance

The Influence of Compensation on Employee Performance

Compensation serves as a primary reason and motivation for why employees work, making the compensation they receive a crucial factor influencing employee performance. Compensation plays a crucial role in motivating employees and enhancing their job performance. Research has consistently shown that compensation has a positive impact on employee performance. Higher compensation has been linked to increased employee performance, while lower compensation is associated with decreased performance. The positive impact of compensation on employee performance is well-established in the literature. Studies have demonstrated that compensation is a critical factor in determining employee performance and that it can have a direct and significant influence on employee outcomes. This is because compensation is often seen as a way to demonstrate an organization's appreciation for its employees' efforts and contributions, which can lead to increased job satisfaction and motivation. It is one of the most sensitive aspects of the employment relationship and a primary source of income, thus needing to meet the needs of both the employee and their family, providing certainty of receipt (Suriagiri et al., 2022). Previous research has found a significant positive impact of compensation on employee performance (Candradewi & Dewi, 2019). Therefore, higher compensation leads to increased employee performance, while lower compensation diminishes employee performance.

H5: Compensation has a positive influence on employee performance

The Influence of Non-Physical Work Environment on Employee Performance

Previous research has found a significant positive impact of the non-physical work environment on employee performance (Supriadi & Anitra, 2020; Fitri & Ferdian, 2021). This suggests that a comfortable and conducive non-physical work environment

positively affects employees' task execution and concurrently reduces their stress levels. Conversely, an unfavorable work environment significantly increases employees' stress levels (Lahat & Santosa, 2018; Helmy et al., 2023). A harmonious non-physical work environment within a company fosters employee enthusiasm, potentially maximizing their contribution to the organization (Supriadi & Anitra, 2020).

H6: NPWE has a positive influence on employee performance

The Influence of Job Satisfaction on Employee Performance

The impact of job satisfaction on employee performance is a well-established concept in organizational studies. Job satisfaction refers to an employee's contentment and fulfillment with their job and its associated elements, including the work environment and relationships with colleagues. Research has consistently shown that job satisfaction has a positive impact on employee performance. Higher job satisfaction is linked to improved employee performance, while lower job satisfaction is associated with decreased performance. This is because job satisfaction influences various aspects of an employee's professional life, including their motivation, engagement, and commitment to the organization. Companies struggle to achieve their goals without ensuring job satisfaction among their workforce. Employee performance is deemed good when job satisfaction is high (Setiawan et al., 2024). Job satisfaction reflects one's feelings toward their job, work environment, and relationships with colleagues. Therefore, it is essential for employees to possess job satisfaction, enabling them to interact positively within their work environment, thus facilitating the effective execution of tasks aligned with the company's objectives. Previous research has demonstrated the positive impact of job satisfaction on employee performance (Santoso, 2020), indicating that higher job satisfaction leads to improved performance, while lower job satisfaction results in decreased performance.

H7: Job satisfaction has a positive influence on employee performance

Mediating Role of Job Satisfaction

In this model, various factors such as transformational leadership, compensation, and the non-physical work environment are proposed to influence employee performance indirectly through the mediating role of job satisfaction. Transformational leadership, known for its ability to inspire change and motivate employees, is expected to positively impact job satisfaction, consequently enhancing employee performance (Raharjo & Azizah, 2024). Similarly, compensation and the non-physical work environment are anticipated to directly affect job satisfaction, thereby indirectly influencing employee performance (Santoso et al., 2020).

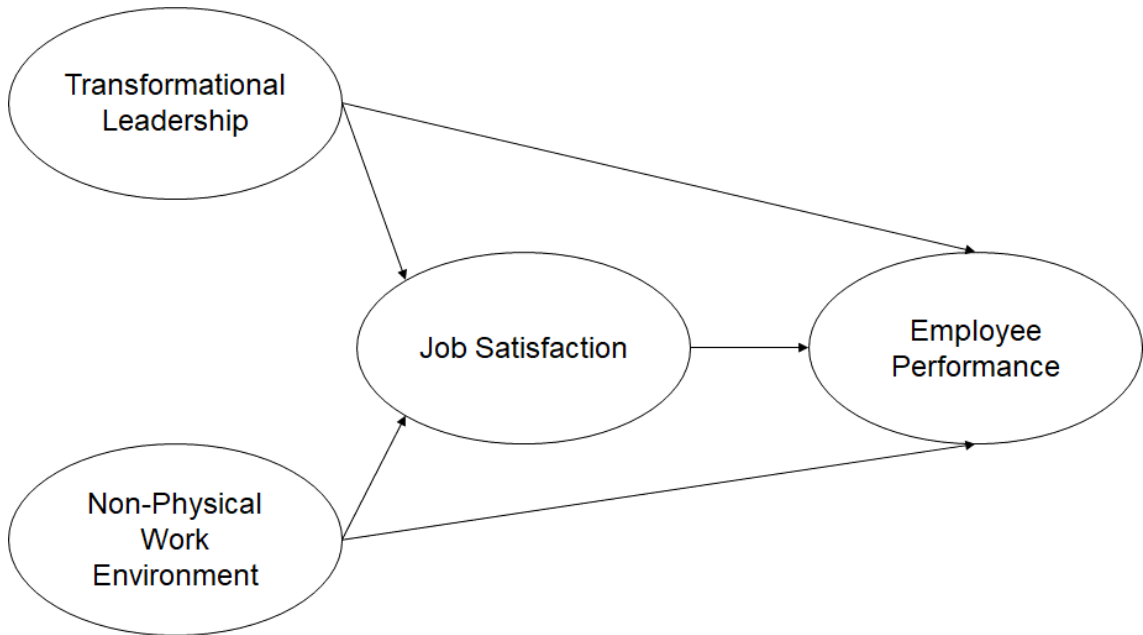
Leaders who are competent, communicative, and supportive inspire confidence and trust among employees, contributing to higher levels of motivation and engagement. Clear direction, constructive feedback, and a positive work culture further enhance employee satisfaction (Dewanto et al., 2023; Soeharso & Raihanah, 2023). Fair and competitive compensation packages are crucial for employees to feel valued, fostering continued motivation and performance. Additionally, a supportive and positive work environment, characterized by respectful interactions, growth opportunities, flexibility, and access to resources, significantly impacts job satisfaction. These favorable conditions lead to increased employee satisfaction, resulting in greater commitment, loyalty, and enthusiasm towards work tasks. Thus, job satisfaction emerges as a critical link between these organizational factors and employee performance (Lahat & Santosa, 2018). Reflecting the importance of employee contentment in driving organizational success.

H8: Job satisfaction mediates the relationship between transformational leadership and employee performance.

H9: Job satisfaction mediates the relationship between compensation and employee performance.

H10: Job satisfaction mediates the relationship between non-physical work environment and employee performance.

Figure 1. Empirical Model



RESEARCH METHOD

The object of your research is Perum Perhutani in Central Java, specifically in Kebumen Regency, from September 2023 to November 2023. Meanwhile, the subjects of the research are the employees working at Perum Perhutani Kebumen. The sample involved in this research consists of all employees of Perum Perhutani totaling 57 employees. Data analysis in this study was carried out using a method called Partial Least Squares (PLS) with Smart PLS software version 3. SmartPLS constitutes a software application designed for the facilitation of Structural Equation Modeling (SEM), a sophisticated statistical method employed to scrutinize the intricate interrelations among variables within a given system. SEM enables researchers to empirically evaluate and validate theoretical constructs by examining the complex web of relationships existing among multiple variables. Specifically, Smart PLS (approach for conducting SEM analyses. PLS methodology is particularly advantageous in scenarios involving limited sample sizes, non-normal data distributions, and models characterized by a multitude of variables.

RESULTS

This study employed Smart PLS software to evaluate hypothesis proposed. Smart PLS is a statistical software used in partial least squares path modeling (PLS-PM), a multivariate statistical method for analyzing relationships between variables in a model. PLS-PM is commonly used in social sciences, management, and other fields to test and model complex relationships between constructs or variables. In the context of Smart PLS, there are two aspects of model evaluation: inner model evaluation and structural

model evaluation, inner model evaluation and structural model evaluation. inner model evaluation involves evaluating the relationships between variables within the model, often referred to as the "inner" model because it focuses on the relationships between variables within the observed model. Structural Model Evaluation involves evaluating the relationships between independent and dependent constructs or variables in the model. This helps in understanding how these variables interact and influence each other.

Outer Model Assessment

Convergent Validity

Convergent validity assesses the extent to which the measurements in a model, reflected by indicator scores, correlate with the construct scores calculated by Smart PLS. In reflective measurement models in Table 1, individual reflective indicators are considered to have high convergent validity if they correlate above 0.70 with the construct they intend to measure. However, for initial stages of scale development research, loading values ranging from 0.5 to 0.6 are considered adequate. These loading values indicate the strength of the relationship between the indicators and the underlying construct, with higher values indicating stronger convergent validity.

Table 1. Convergent Validity Assessment

| Variable | Loading Factor | Result |
|--------------------------------------|----------------|-----------------|
| Employee Performance (Y) | | |
| KI.1 | 0.919 | > 0.7 (Valid) |
| KI.2 | 0.857 | > 0.7 (Valid) |
| KI.3 | 0.795 | > 0.7 (Valid) |
| KI.4 | 0.819 | > 0.7 (Valid) |
| KI.5 | 0.913 | > 0.7 (Valid) |
| KI.6 | 0.663 | > 0.7 (Invalid) |
| KI.7 | 0.790 | > 0.7 (Valid) |
| KI.8 | 0.360 | > 0.7 (Invalid) |
| KI.9 | 0.775 | > 0.7 (Valid) |
| KI.10 | 0.949 | > 0.7 (Valid) |
| Job Satisfaction | | |
| KK.1 | 0.873 | > 0.7 (Valid) |
| KK.2 | 0.880 | > 0.7 (Valid) |
| KK.4 | 0.736 | > 0.7 (Valid) |
| KK.5 | 0.942 | < 0.7 (Valid) |
| Transformational Leader | | |
| KT.1 | 0.929 | > 0.7 (Valid) |
| KT.2 | 0.950 | > 0.7 (Valid) |
| KT.3 | 0.946 | > 0.7 (Valid) |
| KT.4 | 0.960 | > 0.7 (Valid) |
| Compensation | | |
| KP.1 | 0.882 | > 0.7 (Valid) |
| KP.2 | 0.908 | > 0.7 (Valid) |
| KP.3 | 0.909 | > 0.7 (Valid) |
| KP.4 | 0.917 | |
| KP.5 | 0.872 | |
| Non-Physical Work Environment | | |
| LF.1 | 0.931 | > 0.7 (Valid) |
| LF.2 | 0.831 | > 0.7 (Valid) |
| LF.3 | 0.878 | > 0.7 (Valid) |
| LF.4 | 0.871 | > 0.7 (Valid) |

Discriminant Validity

Table 2. Average Variance Extracted Score

| Variable | AVE | AVE Root | Results |
|------------------------------|-------|----------|-------------------|
| Transformational Leader (X1) | 0.896 | 0.947 | > 0.50 (Reliable) |
| Job satisfaction (Z) | 0.776 | 0.881 | > 0.50 (Reliable) |
| Employee Performance (Y) | 0.641 | 0.801 | > 0.50 (Reliable) |
| Compensation (X2) | 0.806 | 0.898 | > 0.50 (Reliable) |
| Work Environment (X3) | 0.771 | 0.878 | > 0.50 (Reliable) |

Based on Table 2, it can be observed that the square root of the Average Variance Extracted (AVE) for the construct of transformational leadership (X1) is 0.947; followed by compensation (X2) with a value of 0.898, and non-physical work environment (X3) with a value of 0.878. For the job satisfaction variable (Z), the square root of AVE is 0.881, and for employee performance, it is 0.801. In this test result, the square root of AVE exceeds the highest standard threshold of 0.50, indicating good reliability because the square root of AVE is greater than this threshold.

Reliability Assessment

Reliability testing is performed by examining composite reliability, where a composite reliability value above 0.7 indicates satisfactory reliability. The composite reliability results between constructs and their respective indicators are as follows:

Table 3. Composite Reliability (CR)

| Variable | CR | Result |
|------------------------------|-------|-----------------|
| Transformational Leader (X1) | 0.964 | >0.7 (Reliable) |
| Job satisfaction (Z) | 0.933 | >0.7 (Reliable) |
| Employee Performance (Y) | 0.957 | >0.7 (Reliable) |
| Compensation (X2) | 0.946 | >0.7 (Reliable) |
| Work Environment (X3) | 0.912 | >0.7 (Reliable) |

Based on Table 3, it can be observed that the composite reliability values for the transformational leadership variable (X1) is 0.964; compensation (X2) is 0.946, and non-physical environment is 0.912. Additionally, the composite reliability values for job satisfaction (Z) is 0.933 and employee performance (Y) is 0.957. All composite reliability values for each variable are above 0.7, indicating reliability. Therefore, all instruments for each research variable are reliable, meaning they can be trusted as data collection tools.

Structural Model Assessment

The structural model refers to the part of the model that evaluates the relationships between constructs represented by latent variables. The structural model enables researchers to test hypotheses about the causal relationships between these variables. Specifically, in PLS, the structural model helps understand how independent variables (predictor variables) influence dependent variables (outcome variables), and also how these independent variables are related to each other. In the structural model, path coefficients are used to measure the strength and direction of the relationships between variables.

Figure 2. Structural Model Output

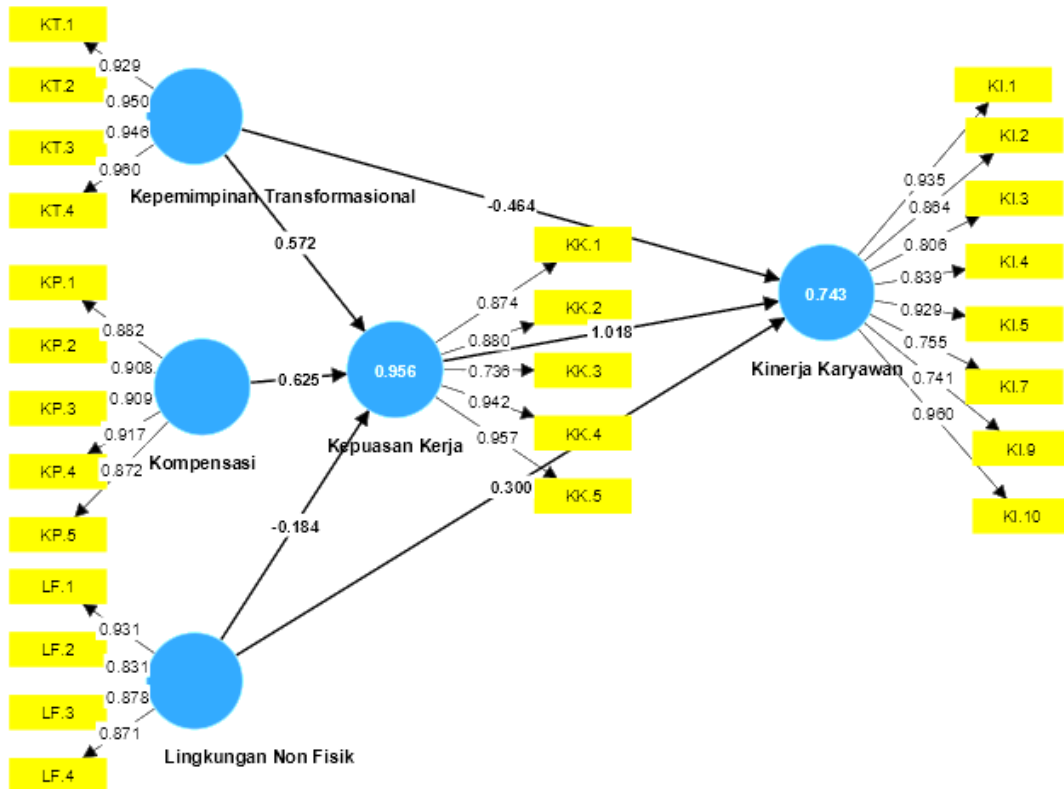


Table 4. Structural Model Evaluation

| Variable | Original Sample | Sample Mean | SD | t-Stat | p-values | Results |
|-----------|-----------------|-------------|-------|--------|----------|--------------|
| TL → JS | 0.572 | 0.563 | 0.064 | 8.941 | 0.000 | H1: Accepted |
| COM → JS | 0.625 | 0.637 | 0.098 | 6.376 | 0.000 | H2: Accepted |
| NPWE → JS | -0.184 | -0.185 | 0.086 | 2.145 | 0.032 | H3: Rejected |
| TL → EP | -0.464 | -0.471 | 0.170 | 2.737 | 0.006 | H4: Accepted |
| COM → EP | 0.637 | 0.662 | 0.213 | 2.986 | 0.003 | H5: Accepted |
| NPWE → EP | 0.300 | 0.282 | 0.214 | 1.403 | 0.161 | H6: Rejected |
| JS → EP | 1.018 | 1.045 | 0.321 | 3.174 | 0.002 | H7: Accepted |

Note: TL= Transformational Leadership; JS: Job Satisfaction; COM= Compensation; NPWE= Non-Psychical Work Environment; EP= Employee Performance.

Based on the statistical analysis presented in Table 4, the results indicate that the majority of the hypotheses proposed in the study are supported by the data. These hypotheses typically meet the criteria for statistical significance, as evidenced by having a p-value below the commonly accepted threshold of 0.05 and a t-statistic value exceeding the critical threshold of 2.105 (assuming a two-tailed test at a 5% significance level). However, it's notable that hypothesis 6 stands out as an exception. This particular hypothesis suggests that the non-physical work environment does not significantly impact employee performance. The statistical analysis reveals that the p-value associated with this hypothesis is 0.161, which exceeds the threshold of 0.05, indicating a lack of statistical significance. Additionally, the corresponding t-statistic value of 1.403 falls short of the critical threshold, further supporting the conclusion that the relationship

between the non-physical work environment and employee performance is not statistically significant.

DISCUSSION

The study underscores the pivotal role of transformational leadership and compensation levels in shaping employee job satisfaction and performance. Transformational leadership refers to a style where leaders inspire and motivate their team members by fostering a sense of purpose, vision, and growth. Leaders who are able to inspire their employees create a positive atmosphere where individuals feel motivated to perform at their best. Alongside inspiration, effective leadership involves recognizing and rewarding employees for their contributions. This could be through tangible rewards like bonuses or promotions, or through intangible rewards like recognition and praise. When employees feel appreciated and rewarded for their efforts, it boosts their morale and motivation. Leadership that is both inspiring and rewarding contributes to a positive work environment where employees feel valued and motivated. This, in turn, leads to higher morale among employees, meaning they feel more positive and enthusiastic about their work. Higher morale often translates to better workplace well-being, including lower stress levels and greater job satisfaction. In addition, job satisfaction refers to how content and fulfilled employees feel in their roles. When leadership is transformational and rewards are competitive, employees are more likely to feel satisfied with their jobs. They're motivated by their leaders, feel valued through rewards, and consequently, are more likely to report higher levels of job satisfaction. In summary, leadership that is both inspiring and rewarding tends to lead to higher morale, improved workplace well-being, and ultimately, increased job satisfaction among employees. This correlation underscores the importance of effective leadership and competitive compensation in fostering a positive work environment.

However, the interplay between the non-physical work environment and job satisfaction exhibits intricate dynamics. While a positive non-physical work environment typically boosts job satisfaction, an unprofessional atmosphere may detrimentally affect productivity and satisfaction levels. This underscores the imperative of fostering a conducive and professional work environment to bolster employee well-being and performance. The study emphasizes the significance of compensation in the context of employee performance assessment. It highlights a direct correlation between higher compensation levels and improved employee performance metrics. However, the study also reveals that the non-physical work environment does not have a discernible impact on employee performance, prompting a reevaluation of its perceived influence. This underscores the importance of achieving a balance between offering competitive compensation packages and creating a conducive professional atmosphere to foster optimal performance outcomes.

Furthermore, the study explores the intricate dynamics of job satisfaction, illustrating its role as a mediator between transformational leadership, compensation structures, and employee performance. It emerges as a crucial link, enabling the translation of motivating leadership approaches and equitable remuneration into tangible performance enhancements. Nevertheless, the research suggests that job satisfaction does not directly mediate the relationship between the non-physical work environment and employee performance, revealing the complex interplay of factors influencing performance dynamics. In conclusion, the study underscores the need for a nuanced understanding of factors such as transformational leadership, compensation strategies, and the intangible aspects of the work environment to effectively manage and enhance employee performance within an organization. This research provides a robust

foundation for developing targeted interventions and policies aimed at increasing job satisfaction levels and overall organizational performance.

CONCLUSION

This research highlights the important role of transformational leadership and compensation in determining employee job satisfaction, while also revealing the complexity of the relationship between non-physical work environment and job satisfaction. The findings underscore the need to create a conducive and professional work environment, as well as to strike a balance between adequate compensation and supportive work environment to foster optimal performance. Additionally, job satisfaction acts as a mediator between motivating leadership practices, fair compensation, and employee performance, although it does not directly mediate the relationship between non-physical work environment and performance, highlighting the complexity of factors influencing performance. The practical implications of this research emphasize the need for management to focus on developing inspirational leadership and providing adequate compensation to enhance both job satisfaction and performance. Furthermore, efforts should be made to create a conducive and professional work environment. Theoretically, this research enriches understanding of the relationships between these factors in the context of human resource management, emphasizing the importance of considering the complexity of factors influencing performance in the development of theories and models.

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DECLARATION OF CONFLICTING INTERESTS

The authors declared no potential conflicts of interest.

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