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The Effect of Compensation and Transformational Leadership on Job Satisfaction mediated with Job Motivation

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Abstract

This research aimed to examine and to analyze the effect of compensation and transformational leadership on job satisfaction, either directly or indirectly. It was also mediated with job motivation variable and the effect of job motivation on employees' job motivation in Muhammadiyah Hospital of Lamongan (thereafter called RSML). This study was explanatory research, in which the analysis method employed was Partial Least Square (PLS) by evaluating structural model (inner model) and measurement model (outer model). The population of the research consisted of 364 employees of Muhammadiyah Hospital of Lamongan, while the sample consisted of 79 employees, obtained using the Slovin technique. Overall, the finding showed that compensation and transformational leadership are the fundamental instruments underlying Muhammadiyah Hospital of Lamongan in improving the employees' job motivation and satisfaction.

Keywords

Compensation, Transformational Leadership, Job Satisfaction, Job Motivation

1. Introduction

The development of hospital business increases very rapidly in Indonesia. According to the data (Kemenkes RI, 2018), there are 2,773 hospitals in Indonesia, including public and private hospitals. The number of Public Hospitals does not increase as rapidly as that of private hospitals in the last six years. The mean growth of public hospitals is only 0.4%, while that of the private hospitals is 15.3%.

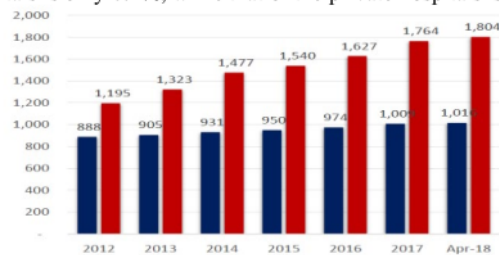


Figure 1. Data of Public and Private Hospitals in Indonesia
(Source: Kemenkes RI, 2018)

On average, there is an increase in the number of private hospitals in every province. The drastically growth can be seen particularly in East Java that increase by four times (21%), by almost two times or 19% in West Java, by nearly two times or 8% in DKI in the last six years. Similarly, in Central Java, it increases by three times or 19%. From the data, it can be concluded that East Java Province is one of the highest growth of the private hospitals in Indonesia. It indicates that East Java province has bigger potential in developing the hospital industry. It, of course, will affect the need for human resources in the industry. Human resource is the most important asset to the development of the organization in addition to financial capital (Chu, *et al.*, 2019),

including healthcare service organization of the hospital. The key factor of service quality in hospitals is human resource management. To get high-quality human resources, management and organization should be reformed and improved. Hospital, as a part of public healthcare service, should be able to meet the standard healthcare service that is always monitored for its quality and quantity through hospital accreditation. It is one of the important points in hospital accreditation assessment (Suryanto, 2011).

Muhammadiyah Hospital of Lamongan is a leading hospital in Lamongan Regency. It can be seen from many awards and achievements achieved, including among others *Indonesian Hospital Management Award* PERSI AWARDS - IHMA in 2017 and Perfectly Passing Accreditation Predicate (*Predikat Akreditasi Lulus Paripurna*) in 2018 – 2020. Such a condition requires RSML to have good standard performance and it can be brought into reality when the employees' job satisfaction is fulfilled well. As suggested by (Hanif and Ratnawati, 2012), basically, an employee will feel comfortable and give his or her best performance when he/she gets job satisfaction as expected.

To improve the employee's job satisfaction, high job motivation is needed. The higher the individual's motivation, the higher is their job satisfaction (Bang, Ross, and Reio, 2012). Because motivation is a reason behind an action, it leads to the beginning and the continuation of activity and determines an individual's behavior (García, *et al.*, 2018). Some attempts have been taken by a company or organization to improve the employees' job motivation and satisfaction. The company uses compensation as a way of motivating the employees to improve their productivity (Yang and Chen, 2018). However other empirical evidences suggested that incentive and compensation cannot be the key factor to improve the employees' motivation. Another factor that can affect it is leadership style; transformational leadership becomes one of the best choices in motivating the employees. A leader cannot use an economic incentive or career, but he/she can use his/her leadership to motivate employees (Gennaro, 2018). Therefore, this research aims to examine and to analyze the effect of compensation and transformational leadership on job satisfaction, either directly or indirectly. It is also mediated with job motivation variable and the effect of job motivation on the employees' job satisfaction in Muhammadiyah Hospital of Lamongan.

2. Literature Study

2.1 Job Satisfaction

Job satisfaction refers to the compatibility of an individual's expectation to the reward provided by the manager. An individual's expectation constitutes desire, need, passion, and experience integrating to create job expectation. Job satisfaction also refers to the level of attitude common in a group (Sinambela, 2012). Job satisfaction is the employees' satisfaction with their job concerning the compatibility of what the employees expect from it job to the reward they get (Davis, 1995). According to Robbins and Judge (2013), job satisfaction is defined as an individual's common attitude to his/her job. Job satisfaction is a pleasing emotional attitude and the attitude of loving the job. This attitude is reflected in work morale, discipline, and performance (Hasibuan, 2009). Job satisfaction is an individual's feeling to his/her job resulting from his/her effort and supported by external factors, to work condition, work result, and the job itself (Sinambela, 2012).

From some definitions above, the author concludes that job satisfaction is a common attitude shown by employees constituting positive and negative attitudes based on their thinking of and feeling about their job and self condition. The result of previous study by Hayati and Caniogo (2012), it showed that there is a positive correlation between job motivation and satisfaction; job motivation will be realized in the presence of reasonable compensation and leadership style supporting it.

2.2 Compensation

In her journal, Ilyina (2013) stated that compensation is a part of the attempt of improving employees' motivation to create the feeling of comfort in working. Compensation has a broader meaning than salary. Compensation involves all aspects concerning the reward given by the company to the employees not only in financial form but also in reward or benefit form. As suggested by (Samsudin, 2010), "Compensation is the giving of return in the form of money (financial) and indirectly in the form of (non-financial) reward". Financial compensation can be given in the form of salary, wage, tenure benefit, position benefit, premium, etc. Meanwhile, non-financial compensation can be given in the form of holidays, furlough, benefits, social insurance, and welfare. More clearly, Adhikari, *et al.* (2017) stated that compensation in the form of a

corporation's attention to its employees; it indicates that compensation is viewed not only from salary but also from wage.

2.3 Transformational Leadership

There are three measures to be taken to motivate the employees: to encourage the employees to be more aware of the importance of effort output, to encourage the employees to prioritize the group's interest and to improve the employee's need such as self-esteem and self-actualization (Buntara, 2013).

In their journal, Aga, Noorderhaven and Vallejo (2016) explained that in transformational leadership, there are four dimensions composing it: ideal effect, intellectual stimulation, inspirational motivation, and individual consideration. It is confirmed by Munevver (2015) that transformational leadership dimension functions specifically in the transformational process. Ideal effect emphasizes on belief, value, and ethic, while inspirational motivation means that the leader gives meaning and challenge to the employees' job and inspires the employees to generate emotion. Meanwhile, intellectual stimulation challenges old assumptions, beliefs, and traditions, and supports the new way of thinking, and individual consideration refers to the leader considering the adherents' need, ability, and objective in giving briefing and supervision. The information above suggests that transformational leadership is the leadership style with a good vision to improve the subordinate's inspiration and to improve the adherents' level of expectation through some approaches based on consciousness and sense of belonging, and to be able to encourage, support, and build in order to improve the subordinates' potency. Through such a method, the figure of a leader that can build a solid team in undertaking its tasks is the one with transformational character.

2.4 Job Motivation

A worker may or may not undertake his job well. In relation to the definition of motivation, Samsudin, 2010 and Utomo (2010) suggested that motivation is the process of influencing or encouraging an individual or a workgroup to do something specified. Winardi (2004) stated that motivational analysis should focus its attention on the factors generating and directing an individual's activities. Another opinion is suggested by Hasibuan (2009), stated that motivation is to give a driver that can create an individual working passion to make them cooperative, working effectively, and integrated with all of their efforts to achieve satisfaction.

From the definition suggested, it can be concluded that motivation is a condition inside an individual encouraging the desire to do activities to achieve a certain objective. The presence of motivation inside an individual will be able to show off a behavior directed to the objective to achieve the targeted satisfaction. (Demircioglu, 2018) stated that job motivation is the key to most job-related output. Therefore, in the presence of job motivation, employees can improve their performance. In addition, Taghipour (2013) viewed that job motivation is related to leadership style applied to a job. In the presence of a good transformation style, the work environment will also be affected in improving the quality of performance, so that job satisfaction can be achieved (Suttikun, Chang and Bicksler, 2018).

3. Method

This study was explanatory research aiming to get an explanation about the relation of causality between existing variables through hypothesis testing (Sekaran, 2010). The analysis method used was Partial Least Square (PLS) by evaluating the structural model (inner model) and measurement model (outer model). The population in this study was all employees working in Muhammadiyah Hospital of Lamongan consisting of 364 employees. In this study, the author reduced the population or a total of 364 employees by calculating the sample size using the Slovin technique. According to Sugiyono (2016) that considering the calculation above, the sample becoming the respondent in research consisted of 79 employees. The data source of the research derived from primary data. The data were collected using a questionnaire. The questionnaire was distributed to the employees of RSML, filled in independently by them, and submitted at that time all once.

The research instrument was measured using the Likert scale. To determine the indicator in order to obtain quantitative data, the response to each item of the instrument has gradation from very agree to very disagree (value interval of 1-5). To measure the validity and reliability of the instrument, convergent validity and discriminant validity were used with WarpPLS program help. Discriminant validity can be calculated by seeing the loading factor value. If the loading factor > 0.50 , the indicator is valid. Meanwhile, the measurement of reliability between indicator blocks was conducted by means of evaluating AVE value (> 0.50), composite reliability value and Cronbach alpha value > 0.70 (Ghozali, 2015).

4. Result and Discussion

As known, the indicators creating the latent variable in this research were reflective in nature; an evaluation on measurement model or outer model used to measure validity and reliability, those indicators included *convergent validity*, *discriminant validity*, *composite reliability*, and *Cronbach alpha*. Convergent validity value can be seen from the correlation between indicator score and construct score (loading factor) with the criterion that the loading factor value of each indicator is higher than 0.70. However, for the analysis with unclear theory, the outer loading of 0.50 can be said as valid (Luthans, 1998). Table 1 below presents the value of convergent validity analysis.

Table 3. Model Fit Indices

	Index	P – value
APC	0.486	P < 0.001
ARS	1.139	P < 0.001
AVIF	3.079 (good if < 5)	P < 0.001

Source: (Analysis, 2019)

The result of output as presented in Table 3 shows that APC has an index of 0.402 with a p-value < 0.001. Meanwhile, ARS has an index of 1.139 with a p value < 0.001. P-value is less than 0.1, meaning that it meets the criteria of APC and ARS. AVIF index value is also < 5, 3.079. It means that the model has been fit with the data so that the next test can be done.

From the result of the test on all hypotheses as illustrated in Figure 2, it can be explained that path coefficient value in respective hypotheses is shown in Table 4 below.

Table 4. Result of Path Analysis

Inter-Construct Relation	Path Coefficient	P – values	Cut off	Note
H1: Compensation → Job Satisfaction	0.840	<0.001	<0.1	Supported
H2: Transformational Leadership → Job Satisfaction	0.357	<0.001	<0.1	Supported
H3: Job Motivation → Job Satisfaction	0.327	<0.001	<0.1	Supported
H4: Compensation → Job Satisfaction	0.496	<0.001	<0.1	Supported
H5: Transformational Leadership → Job Motivation	0.510	<0.001	<0.1	Supported
H6: Compensation → Job Motivation → Job Satisfaction	0.335	<0.001	<0.1	Accepted (Partial Mediation)
H7: Transformational Leadership → Job motivation → Job Satisfaction	0.498	<0.001	<0.1	Accepted (Partial Mediation)

Source: (Analysis, 2019)

Considering the result of hypothesis testing as presented in Table 4, it can be found that compensation affects significantly the job satisfaction. The result of the analysis shows a p-value < 0.001; thus H1 is supported. Giving better compensation can improve the employees' job satisfaction. This result supports the results of previous studies conducted by Adhikari, et al., (2017), Chu, et al. (2019), Dou, et al. (2015) and Yang (2018) showing that financial and non-financial compensation affects significantly the employees' job satisfaction.

Transformational leadership affects significantly the job satisfaction, with a p-value < 0.001; thus H2 is supported. It is in line with Ritawati (2013), Munevver (2015) and Puni A (2018), they find that transformational leadership style is applied by the leader who can undertake interpersonal approach to subordinates so that the subordinates feel glad and satisfaction with the superior's ways of directing the employees to achieve the target specified by the company.

Job motivation affects significantly the job satisfaction, with a p-value < 0.001 , so that H3 is supported. This study's finding is in line with previous studies of Hayati (2012), Kusuma (2015), Pang (2018) and Suttikun (2018), they find that job motivation can improve the employees' job satisfaction.

Compensation affects significantly the job motivation. The result of analysis shows that a p-value is less than alpha value (< 0.001). It means that compensation can improve the employees' job motivation; thus H4 is supported. The previous studies that supporting this current study's finding are Kusuma (2015), Adhikari, (2017), Ilyinal (2013) and Demircioglu (2018). They suggest (both financial and non-financial) compensation that affects significantly the employees' job motivation.

Transformational leadership affects job satisfaction significantly. P-value < 0.001 ; thus H5 is supported. This study's finding supports the previous studies conducted by Oto (2019), Kusuma (2015) and Aga (2016). They find that transformational leadership can improve the employees' job motivation.

The result of the test on the mediation in the indirect effect of compensation on job satisfaction through motivation is significant (p-value < 0.001). It means that job satisfaction plays a mediating role in the effect of compensation on job satisfaction, so that H6 is supported. This finding is in line with a previous study conducted by Kusuma (2015), she found that there is an indirect effect of compensation on job satisfaction mediated with job motivation. Sukidi (2016) found that giving reasonable compensation is the fundamental way of providing the employees with job satisfaction. This finding is also in line with Gupta (2014) who found that company can increase salary and compensation to motivate the employees; good and reasonable compensation as one of key factors affecting the employees' job satisfaction.

Meanwhile, a p-value for the indirect effect of transformational leadership on job satisfaction through job motivation is < 0.001 . It indicates that job motivation can play a mediating role in the effect of transformational leadership on job satisfaction. Thus, H7 is supported. This finding is in line with Gennaro (2018) who found that there is an effect of transformational leadership on job satisfaction through job motivation. It confirms that job motivation can strengthen the effect of transformational leadership on the employees' job satisfaction in Muhammadiyah Hospital of Lamongan.

5. Conclusion

Overall, the result of the research shows that compensation and transformational leadership are the fundamental instruments underlying Muhammadiyah Hospital of Lamongan in improving its employees' job motivation and satisfaction. Giving reasonable compensation and transformational leadership style application play important role in improving job satisfaction either directly or indirectly through job motivation. Good job motivation can generate the employees' satisfaction with job. In addition, job motivation is determined as partial mediation to the effect of compensation and transformational leadership on job satisfaction which means that without job motivation, compensation and transformational leadership practices can improve job satisfaction directly, and the presence of job motivation escalates the increase in the employees' feeling of satisfaction with the company.

Some practical recommendations are given to Muhammadiyah Hospital of Lamongan (RSML) considering the findings of the research. They are benefit giving and inspirational motivation by the leader of RSML as the key factor to reinforce compensation and transformational leadership, thereby, can improve the employees' working spirit and their job satisfaction.

Further researchers are recommended to add the indicator of compensation to make the result of the research more comprehensive. The object of next research should be expanded to the manufacturing industry sector to draw a broader conclusion (generalization).

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Biography

Umar Yeni Suyanto, is a lecturer in Taxation Study Program at Institute Technology and Business of Ahmad Dahlan Lamongan. He has expertise in the field of human resource management, entrepreneurship and taxation. Apart of being a lecturer, he is also active in human resource management digitized-based. He is also a researcher who focuses on the development of micro, small and medium enterprises (MSMEs).

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