

Effects of Transformational Leadership and Work Environment towards Employee Performance Moderated By Motivation

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ABSTRACT: The public service quality is determined, in part, by employees' optimal performance in the institution. Some factors can influence employees' performance, which includes transformational leadership, work environment, and motivation. The research objectives are: to examine effects of transformational leadership and work environment towards employees' performance; to examine effects of transformational leadership to employees' performance through motivation; and to examine effects of work environment to employees' performance through motivation. The research population is contracted employees of the State Polytechnic of Malang, East Java, amounting to 179 individuals. Sample number was determined with Slovin's formula with a 5% margin of error, resulting in a sample size of 101 individuals. The technique of sampling was disproportionate-stratified random-sampling, and data collection was conducted with a questionnaire distributed to respondents. The data were analysed by using SEM PLS. The research results conclude when the implementation of transformational leadership is optimized, there is a decrease in employee performance. However, if a conducive work environment is created, it has a positive impact to employees' performance. Furthermore, motivation role as a mediating variable in effects of transformational leadership and work environment to employees' performance was found to be positive and significant. Therefore, if the management of the State Polytechnic of Malang, East Java, aims to improve contracted employees' performance, someone can do it by creating a conducive work environment while avoiding the application of transformational leadership.

KEYWORDS: Transformational leadership, Work environment, Motivation, and Employee performance.

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I. INTRODUCTION

As a government agency, State Polytechnic of Malang (Polinema) needs to maintain and sustain excellent services according to the needs and expectations of the community. Therefore, it is necessary to have a supportive workforce that is honest, neutral, competent, capable, professional, and high-performing to help achieve organizational performance.

Polinema's performance as an organization depends on the performance of its employees in providing positive contributions to the organization. Employees performance and organization performance have very close relationship. The achievement of organization goals cannot be separated from human resource contribution through an active role as the main operational supporter in achieving organizational goals (Pasolong, 2010).

Employees at Polinema consist of civil servants, permanent non-civil servants employees, and contract employees. Contract employees are non-permanent workers who work for a certain period based on an agreement between the employee and Polinema. Contract employees are entitled to receive basic salaries, health insurance allowances, performance incentive allowances, and meal allowances, but they must renew their contract every year. The uncertainty of contract renewal in the following year can affect employee motivation, which also affects individual performance.

Job insecurity has been described as having a negative impact on short-term organizational outcomes, such as job satisfaction and organizational commitment, as well as long-term reactions, such as performance and absenteeism (Chirumbolo & Areni, 2005). Sverke and Hellgren (2002) concluded in their research that job insecurity can disrupt performance, creativity, and job safety.

In addition, there are several factors that affect employees' performance, such as individual competence, organizational support, and management support (Simanjuntak, 2011). Individual competence includes ability, work skills, education, training, work experience, motivation, and work ethic. Organizational

support factors include organizational structure, provision of work infrastructure, comfort of work environment, and work conditions. Meanwhile, management supporting factors are the managerial ability of leaders in managing functional relationships that are harmonious.

This study places management support variables, namely leadership style, and organizational support variables, namely the work environment, as variables that influence employee performance. Syafii et al. (2015) stated that leadership style significantly influences employees' performance. In addition, work environment, such as physical environment, supervisor support, employee relationships, job safety, and clarity of working hours, also affects employee performance (Saidi et al., 2019).

Furthermore, work motivation is placed as a mediating variable in the conceptual model construction because some research results show inconsistencies in the relationship between transformational leadership style and the work environment with employees' performance. Elgelal and Nurmijati's research (2015), for example, stated that transformational leadership directly does not significantly influence employees' performance. Meanwhile, Lohanan's research (2012) stated that relationship between work environment and employees' performance was very low and work environment did not significantly influence employees' performance.

Based on the background that has been presented above, the research problem can be formulated as follows: does transformational leadership positively and significantly influence performance?; does work environment positively and significantly influence performance?; does transformational leadership positively and significantly influence performance mediated by motivation? and does work environment positively and significantly influence performance mediated by motivation?

This study aimed to test influences of transformational leadership towards employees' performance that was mediated by work motivation, as well as to test influences of "work environment on employees' performance, mediated by work motivation.

II. LITERATURE REVIEW AND HYPOTHESIS

Effects of Transformational Leadership on Employees' Performance

Leadership is ability to influence, motivate, and encourage others to contribute to organization success (House et al., 1999). Ohemeng et al. (2018) found that successful leadership styles that improve the quality of leader and subordinate relationships have a positive influence on employee performance. In regarding with transformational leadership, one can know that the more managers use transformational leadership, the higher employees' performance will be (Shafie et al., 2013).

Transformational leaders are described as psychoanalysts, who tend to learn, understand, and analyze the thoughts, attitudes, beliefs, and preferences of employees in order to make decisions that help improve their performance. Transformational leaders change the beliefs, values, and attitudes of employees to achieve performance beyond expectations, which ultimately improves overall performance (Buil et al., 2019). Kehinde and Banjo (2014) and Li and Hung (2009) draw a conclusion that transformational leadership is the best approach that can be used by organizations to improve employee performance to achieve their targeted goals. Referring to the above discussion, the following hypothesis is formulated:

H1: Transformational leadership positively and significantly influences employees' performance.

The Influence of Work Environment towards Employees' Performance

To improve employees' performance, efforts must be made to create a positive work environment that supports productivity. This can be done through improving the physical conditions of the workspace, developing a positive work culture, improving good leadership, enhancing career development opportunities, implementing good communication, and supporting work life balance for employees. According to Musriha (2011), work environment gives positive influence to employees performance. Comfortable work environment increases employees' concentration levels and leads to an increase in their productivity. Good work environment, both physical and non-physical, supports the improvement of employee work performance. Lee and Brand (2005) thinks that a company's work environment is expected to support employee performance.

Therefore, a pleasant work environment is an important element in ensuring employee productivity and avoiding pressure that affects their performance. Good work environment is a critical factor to determine motivation level, productivity, and performance of employees (Sharma et al., 2016). Employee productivity is the most significant interest and is influenced by the work environment (Mwendwa et al., 2017). Furniture design, ventilation, lighting, supervisory support, workspace, communication, safety measures all affect employee productivity (Eberendu et al., 2018). Regarding the above discussion, hypothesis is formulated:

H2: Work environment positively and significantly give effect to employees' performance.

Influence of Transformational Leadership to Employees Performance through Motivation

Transformational leadership is leadership approach which is focused on creating positive change by motivating and influencing subordinates to achieve larger goals. One positive influence of transformational leadership is its ability to enhance employees' performance.

Leaders who apply transformational leadership can provide high levels of motivation to their subordinates through three essential elements of transformational leadership (Bass et al., 2006). These elements are: first, idealized influence, which means that an idealistic leader can motivate subordinates by providing positive examples, such as integrity, honesty, and ethical behavior that can be followed by subordinates; second, inspirational motivation, which means that an inspirational leader can motivate subordinates by providing hope, boosting morale, and motivating them to achieve shared goals. Third, intellectual stimulation, which means that a leader who provides intellectual stimulation can motivate subordinates to think critically, innovatively, and creatively in finding solutions to problems.

Therefore, transformational leadership aims to explain that leaders, as change agents, are capable of producing performance beyond expectations by setting challenging tasks to direct and motivate themselves and others to achieve higher levels of performance (Bass et al., 2006). According to Manik (2016), the better a leader performs in their function and role, the higher the motivation of employees, which ultimately enhances their performance.

Mavhangu and Bussin (2017) state the urgency of motivating employees' work performance by the applied leadership style to enhance employee performance. In this case, transformational leadership has positively influenced employees' performance through the enhanced motivation. A leader who applies transformational leadership can motivate their subordinates to improve their performance through ideal influence, inspirational motivation, and intellectual stimulation, which give impacts to the increasing productivity, work quality, work satisfaction, and employees' organizational commitment. Based on this explanation, the following hypothesis is formulated:

H3: Transformational leadership has positively and significantly given effect to employees' performance by motivation.

Influence of Work Environment to Employees' Performance through Motivation

Good work environment can influence employee performance through motivation. Conducive work environment can support and give motivation to employees to work optimally. The research results of Narasuci et al. (2018) showed that work motivation in part mediated the work environment influence towards lecturers' performance, while job satisfaction did not have any mediating role for the work environment influence to lecturers' performance. Hanaysa's research (2016) showed that working environment gave significant positive effect to employees' productivity. This study showed that organizational learning gave a significantly positive effect to employees' productivity.

Therefore, management needs to create a conducive work environment to create a pleasant working atmosphere that will have a positive impact on employees' psychological conditions and motivate them to carry out their work optimally. Erawati et al (2019) and Muchtar's (2017) research proved that working environment influences employees' performance through motivation. Thus, good working environment will help increase employees' motivation, and it influences employees' performance. Conducively working environment can help build good working relationships, increase motivation, and improve employee performance. Referring to above opinion, the following hypothesis is formulated:

H4: Working environment positively and significantly influences employees' performance through motivation.

III. RESEARCH METHOD

Population and Sample

The study population consists of 147 contract educational personnel who have worked for more than 1 year at the State Polytechnic of Malang, East Java, Indonesia. Based on the study population, the sample number was determined with the Slovin formula (Amirin, 2011), namely:

$$n = \frac{N}{1 + N e^2}$$

n= sample size

N = total population

e² = precision set at 5%

Based on the formula above, the sample size for this study is:

$$n = \frac{147}{1 + (147 \times 0,05^2)} = \frac{147}{1,37} = 107,299 \text{ (108)}$$

Therefore, the sample number for this research was 108 employees.

Next, sample was taken by using disproportionate stratified random sampling, which means the sample was selected from each stratum based on the percentage that represents each subgroup in the population.

To obtain relevant and valid data, the data collection method used a questionnaire distributed to respondents. The research instrument measurement uses a Likert scale, which is a psychometric scale commonly used in survey research. The four variables in the study, namely: transformational leadership (X1), work environment (X2), motivation (Y1), and employee performance (Y2) were measured with a 5-category Likert scale, namely: strongly agree, agree, disagree, strongly disagree, and neutral.

Data Analysis

Analysis of data was conducted by using Structural Equation Modeling (SEM) - PLS. The decision to use SEM PLS data analysis technique is based on several considerations, including (1) not requiring normal distribution data, (2) being able to use small sample sizes, (3) not requiring sample randomization, (4) being able to use non-interval measurement scales, (5) being able to use formative indicators to measure latent variables, (6) being suitable for developing theory at the early stage, and (7) being able to handle complex models with multiple latent variables and indicators (Ghozali, 2008).

The SEM-PLS data processing requires two stages to assess the model fitness, namely the evaluation of measurement model (outer model) and the analysis of structural model (inner model). The outer model analysis was conducted to ensure that the applied measurement was valid and reliable. The model specified the relationship between latent variables and their indicators. On the other hand, the inner model analysis is conducted to ensure the accuracy of the structural model. This analysis shows the relationship between variables in accordance with previous research findings and theoretical perspectives.

Hypothesis Testing

Hypothesis testing is carried out to determine whether each hypothesis proposed in this study can be accepted or not. Hypothesis testing is done as follows: (a) Determine the level of significance or critical value (alpha) of 5%.; (b) Compare the t-statistic value in the bootstrapping output display of the smart PLS 3.0 program with the t-table value. The t-table value for alpha 5% is 1.96 (Hussein, 2015). Thus, accepted criteria for the hypothesis is when t-statistics > t-table (t-statistics > 1.96).

IV. RESULTS AND DISCUSSION

Outer Model Evaluation

The measurement model shows the relation between manifest variables or measurement items to latent variables in the study. The test includes convergent test of validity, discriminant test of validity, and composite test of reliability.

Convergent Test of Validity

According to Ghozali and Latan (2015), the convergent test of validity uses the parameter of outer loading values greater than 0.5 and also uses the parameter of Average Variance Extracted (AVE) values greater than 0.5. The following table is the result of the convergent validity test.

Table 1. Outer Loading Values

Item	Transformational leadership	Work environment	Motivation	Employee performance	Information
X1.1	0.555				Valid
X1.2	0.711				Valid
X1.3	0.769				Valid
X1.4	0.658				Valid
X1.5	0.762				Valid
X1.6	0.683				Valid
X1.7	0.738				Valid
X1.8	0.658				Valid
X1.9	0.676				Valid
X1.10	0.695				Valid
X1.11	0.741				Valid
X1.12	0.82				Valid

Item	Transformational leadership	Work environment	Motivation	Employee performance	Information
X1.13	0.819				Valid
X1.14	0.713				Valid
X1.15	0.726				Valid
X1.16	0.753				Valid
X2.1		0.837			Valid
X2.2		0.817			Valid
X2.3		0.633			Valid
X2.4		0.861			Valid
X2.5		0.803			Valid
X2.6		0.691			Valid
X2.7		0.831			Valid
X2.8		0.787			Valid
Y1.1			0.588		Valid
Y1.2			0.707		Valid
Y1.3			0.812		Valid
Y1.4			0.854		Valid
Y1.5			0.697		Valid
Y1.6			0.736		Valid
Y1.7			0.802		Valid
Y1.8			0.828		Valid
Y1.9			0.874		Valid
Y1.10			0.71		Valid
Y1.11			0.81		Valid
Y2.1				0.814	Valid
Y2.2				0.702	Valid
Y2.3				0.862	Valid
Y2.4				0.837	Valid
Y2.5				0.837	Valid

Considering the table above, one can know that the outer loading values have met validity criteria, which are > 0.5. In addition to being seen from the outer loading values, convergent validity can also be seen at the Average Variance Extracted (AVE) values. The following table shows the AVE values for each construct.

Table 2. Average Variance Extracted (AVE) Value

No.	Construct	AVE Value
1.	Transformational leadership	0.519
2.	Work environment	0.619
3.	Motivation	0.592
4.	Employee performance	0.662

Based on Table 2, one can know that all of indicators have outer loading values above 0.5. In addition, AVE value for each construct is greater than 0.5. Therefore, results of the convergent validity test are fulfilled because most items in each construct can be considered valid.

Reliability Test

To measure the reliability of a construct in SEM-PLS, two methods were used, namely Cronbach's Alpha and Composite reliability. This research instrument is considered reliable if value of composite reliability is higher than 0.7 and the Cronbach's alpha value is higher than 0.7. The result of reliability test is presented in the table below.

Table 3. Results of Reliability Test

Variable	Cronbach's Alpha	Composite Reliability
Transformational leadership	0.937	0.945
Work environment	0.910	0.928
Motivation	0.929	0.940
Employee performance	0.871	0.907

Table 3 shows that all of “constructs have Cronbach's Alpha values > 0.70 and Composite Reliability values > 0.70. According to Ghozali and Latan (2015), a construct or variable is considered reliable if it has a Cronbach Alpha value > 0.70. This research instrument will be considered reliable if Composite Reliability value > 0.7, and if the value of Composite Reliability approaches 1, it identifies higher internal consistency reliability (Hair et al., 2017). Thus, one can conclude that all research constructs are considered reliable.

Inner Model Evaluation

Evaluation result of the structural model is used to predict the relationships between latent variables evaluated using R-squares. R-squares values of 0.67, 0.33, and 0.19 indicates a strong, moderate, and weak model, respectively (Chin et al., 1998).

Table 4. Coefficient of Determination

Variable	Coefficient of Determination (R ²)
Motivation	0.843
Employee performance	0.858

Referring to the testing in Table 4, it is known that the R² value of the motivation variable is 0.843. R² value of motivation variable is categorized as a strong model (Ghozali & Latan, 2015). In this case, the motivation variable can be described by the transformational leadership and work environment variables by 84.3%. The remaining 15.7% is shown by other variables outside the model.

The R² value of the employee performance variable is 0.858, categorized as a strong model (Ghozali & Latan, 2015). In this case, the variable of performance can be explained by transformational leadership and work environment variable by 85.8%. The remaining 14.2% is explained by other variables outside the model.

Structural Model Evaluation Goodness of Fit (GoF)

Goodness of Fit (GoF) is a measurement for the overall accuracy of the model and is considered a single measurement of both outer model and inner model. The following table shows the evaluation of Goodness of Fit (GoF).

Table 5. Goodness of Fit (GoF) Evaluation

Variable	Coefficient of Determination (R ²)	AVE
Motivation	0.836	0.592
Employee performance	0.862	0.662

$$GoF = \sqrt{AVE \times R^2}$$

$$GoF = \sqrt{0.627 \times 0.849}$$

$$GoF = 0.729$$

According to Ghozali and Latan (2015:83), the strength criteria of a model based on the GoF measurement are 0.36 (large GoF), 0.25 (medium GoF), and 0.10 (small GoF). The calculation result obtained a GoF value of 0.729. Therefore, one can conclude that the structural model of this research generally has good predictive characteristics (large GoF), meaning such model owns high ability to explain empirical data.

Hypothesis Testing Results

Hypothesis testing was conducted to evaluate an influence of the style of transformational leadership and work environment variables towards employees' performance, both directly and indirectly through motivation. The table below presents results of hypothesis testing.

Table 6. Results of Hypothesis Test

Connection	Original Sample	t Statistic	p Value
Transformational leadership ->Employee performance	-0.245	2.401	0.017
Working environment ->Employees' performance	0.382	4.127	0.001
Transformational leadership-> Motivasi -> Employee performance	0.351	3.576	0.000
Working environment -> Motivation -> Employee performance	0.397	4.462	0.000

V. DISCUSSION

Effect of Transformational Leadership towards Employee Performance.

Based on table 6, one can see that significant value of transformational leadership variable on employee performance is $0.017 < \alpha (0.05)$ and the t-statistic (2.401) $>$ t-table (2.018) and the path coefficient is 0.245 with a negative sign. This means that transformational leadership has a negative and significant influence to employees' performance; if transformational leadership is optimized, there will be a decrease in employee performance. Regarding the result of research, one can see that the style of transformational leadership is less suitable for contracted employees. Transformational leadership ideally influences employees to develop themselves to become future leaders. However, this cannot be applied to contract employees due to the limitations of working time and career prospects, making them psychologically feel less committed to the organization. This research contradicts previous empirical studies (Bacha, 2014; Pradhan & Pradhan, 2015) which stated that transformational leadership has an outstanding role in influencing employees' performance.

Transformational leadership style cannot be applied to contract employees. The employment relationship for contract employees tends to be short-term oriented, so long-term commitment is not formed. Contract employees are usually not closely bound to the organization where they work. Organizations usually do not expect emotional attachment with contract employees because their relationship is transactional as stated in the contract provisions (Lepak & Snell, 1999). Contract employees are usually employed for specific and temporary jobs, so they do not have strategic value for organizational interests (Lepak & Snell, 1999). The employment relationship between the organization and contract employees focuses on work, without requiring employee commitment to the success or survival of the organization. The renewal of the contract every year makes it difficult for leaders to influence employee performance, given that transformational leadership requires relatively longer time to influence employee performance. The research result confirms previous research that was conducted by Nawose and Roussel (2017) that revealed that the transformational leadership style gives a negative and significant effect to employees' performance.

Influence of Work Environment to Employee Performance.

On Table 6, one can see that significant value of work environment variable on employee performance is $0.001 < \alpha (0.05)$ and the t-statistic (4.127) $>$ t-table (2.018), with a path coefficient of 0.382 and a positive sign. This means that working environment has a positive and significant effect to employees performance. If the working environment is conducive, it will be followed by an improvement in employees' performance. Relying on the research result, one can know that a conducive work environment makes employees feel to be happy and comfortable to carryout their tasks, which in turn will enhance their performance. Working environment at Polinema was very suitable both physically and non-physically in supporting employees to work optimally. Physical work environment such as lighting, air circulation, and availability of various work support facilities are adequate. Meanwhile, the non-physical work environment such as cooperation in completing tasks, work relationships, and communication between leaders and subordinates appear to be well-maintained. A comfortably working environment causes the level of employees concentration in working to increase, which ultimately leads to an increase in employee work productivity (Josephine & Harjanti, 2017). According to Lee and Brand (2005), the company's work environment is hoped to support employees' performance. A suitable physical and non-physical work environment will support to improve employees' working performance. The work environment is considered to be adequate if employees can optimally do their activities safely, and comfortably. The suitability of the work environment can affect productivity (Ardana, 2012). This research confirms several previous studies conducted by Leblebici (2012), Pitaloka & Sofia (2014), and Saidi et al. (2019) which revealed the work environment to have positive and significant effect to employees' performance.

Influence of Transformational Leadership on Employee Performance through Motivation

In table 6, one can see that significant value of the transformational leadership variable to employees' performance through motivation is $0.000 < \alpha (0.05)$, t-statistic (3.576) $>$ t-table (2.018), and path coefficient is 0.351 with positive sign. Such result means that transformational leadership gives a positive and significant effect to employee performance through motivation, and when the intensive transformational leadership

implementation increases, it will also be followed by an increase in motivation, which leads to an improvement in employee performance. In other words, if transformational leadership is optimized, employees will feel motivated to carry out their work, which will have an impact on improving their performance.

Transformational leadership is carried out through various methods, such as making employees realize their important job, influencing them to prioritize the organization over personal interests, and activating their higher needs (Yulk, 2010). This is because employees believe, appreciate, and respect their leader, so they get motivation to work harder for the organization (Avolio & Bass, 2001; Yulk, 2010). Through the transformational leadership style, the leader can play a maximal role in generating employee motivation (Fajrin & Susilo, 2018).

In an organization, motivation is the most important factor to influence employees' behavior and performance. The level of motivation within individuals or groups in completing their work can affect all aspects of organizational performance. Wagner and Hollenbeck (2010) revealed that a motivated person will always want to learn and know new things to improve their work performance. Working motivation is employees' internal drive, so when work motivation is high, employees will be strongly committed and will not easily give up when facing various problems in their work, thus improving work results. This research result is similar with several previous researches that motivation can mediate influence of transformational leadership style to employees' performance (Kharis, 2015; Vipraprastha et al., 2018).

The Influence of Work Environment on Employee Performance through Motivation

In Table 6, one can see significant value of the work environment variable on employee performance through motivation is $0.000 < \alpha (0.05)$, $t\text{-statistic} (4.462) > t\text{-table} (2.018)$ and the path coefficient is 0.397 with a positive sign. The result shows that the work environment gives significant influence to employee performance through motivation, and when the work environment is pleasant, there will also be an increase in employee motivation, resulting in improved performance. In other words, if the working environment is conducive to employees, they will be motivated to carry out their work, resulting in increased performance. This is because a convenient work environment increases the concentration level in work, leading to an increase in employees' increasing productivity (Josephine & Harjanti, 2017).

A conducive work environment will make employees feel happy, which will increase their work spirit (Sedarmayanti, 2009). In addition, a good work environment is not enough if there is no work motivation for employees. If employees like the work environment, then work activities will be created well and effectively. Because motivation is the most important thing for improving employee work effectiveness. A comfortable and conducive work environment can influence employees to be more motivated in improving the quality and quantity of their work, so both the working environment and working motivation can give an impact to improve employees' performance. A comfortable working environment is the key driver for employees to produce maximum performance. Motivation is an important factor in achieving high performance. This research result is similar with Moulana. (2017) research that motivation can mediate the influence of the work environment style on employees' performance.

VI. CONCLUSION AND IMPLICATIONS

CONCLUSION

Employee performance is an important factor in improving the quality of public services. Improved employee performance can be caused by various variables including leadership style, motivation, and work environment. As an independent variable, it has been proven that transformational leadership gives both a negative and significant effect to employees' performance, while working environment gives a positive and significant effect to employees' performance. When the implementation of transformational leadership is optimized, there is a decrease in employee performance, but when a conducive work environment is created, it has an impact on improving employees' performance.

The motivation role as a mediating variable for the influence of transformational leadership and work environment on employee performance is proven to be positive and significant. Therefore, if the management at State Polytechnic of Malang, East Java, seeks to improve contracted employees' performance, this must be done by creating a conducive work environment while eliminating the implementation of transformational leadership.

IMPLICATIONS

Theoretical Implications

This research has theoretical implications for the development of human resource concepts related to the transformational-leadership-style influence, working environment, and motivation towards employees' performance. This study provides additional references related to the direct and indirect relationships between transformational leadership style, work environment, motivation, and employees' performance.

The interesting result of this research is that transformational leadership gives a negative and significant influence to employees performance. This means that for contract employees, the approach of transformational leadership is not suitable to be implemented. Thus, there are new findings about the direction of the relationship between the style of transformational leadership and employees performance that can be used as a reference for further research.

Practical Implications

Transformational leadership has been proven to influence employee performance but has an opposite relationship. The implication of this finding is that Polinema's leaders cannot apply transformational leadership to contract employees due to their employment status limitations. Therefore, Polinema needs to improve the employment status of contract employees to become non-permanent civil servants if they want to improve their performance through a transformational leadership approach.

Work environment has also been proven to be one of the variables that influence employees performance. This finding implies that State Polytechnic of Malang should improve its work environment for its employees, both physically and non-physically.

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