

The Impacts of Transformational and Transactional Leadership Styles, And Financial and Non-Financial Compensations on Employee Performance in Prof. Dr. R. Soeharso Orthopedic Hospital Of Surakarta

Rohmadi and Asri Laksmi Riani

*Management Graduate Program of Business and Economy Faculty of Universitas Sebelas Maret
Corresponding Author: Rohmadi*

ABSTRACT: *Human resources are the most important factor in every activity of a health institution. The purpose of this study is to analyze the impacts of transformational and transactional leadership styles and financial and non financial compensations on the employees' performance in Prof. DR. R. Soeharso Orthopedic Hospital of Surakarta. The results of this study are expected to be used as considerations in human resource management that can support employees' job satisfaction to improve their performances. This research is included in the category of ex-post facto research. According to the time used in this study, this research is categorized as a cross sectional study. The population of this study were 180 employees working in the service department of Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta. The number of sample in this study was 124 employees of Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta. Data analysis method used in this research was multiple regression analysis. Based on the results of the study, it was found that transformational and transactional leaderships and financial and non financial compensations impact the employees' performance in Dr. R. Soeharso Orthopedic Hospital of Surakarta.*

KEYWORDS: *transformational, transactional, financial compensation, non financial compensation, performance.*

Date of Sumisión: 12-05-2018

Date of aceptante: 28-05-2018

I. INTRODUCTION

Human resources are the most important factor in every health institution activity. No matter how sophisticated the technology used in a health institution, without the support of human resources as the executor of operational activities, it will never be able to produce the expected output with the expected efficiency level. Different backgrounds of different individuals, such as educations, experiences, economics, marital status, needs, expectations and so forth, demand the human resources division of health institutions to be able to manage and the utilize human resources in such a way as to support the achievement of the organizational goals. Satisfied employees will work better and more productively, while less-satisfied employees often ignore their works and are more likely to resign. One of the steps taken by health institution is striving to establish employees' job satisfaction as the motivation of work achievement and institutional benefits (optimal out put / yield). In other words, productivity or employee work will improve along with the establishment of job satisfaction (Muttaqien, 2014).

Leadership style is an important factor in hospital institution. In reality, leaders can influence morale, work life quality, and especially the level of achievement of an organization (Handoko, 2012). The leadership style holds an important role in the management function, which can affect employees in their work so that they can achieve organizational goals (Prayatna, 2016). According to Voon *et al.*, (2012), leadership is a process of interaction that occurs between leaders and workers to achieve goals that have been determined by the management.

Leadership with a new approach is needed to deal with rapid changes, both within or outside the hospital institution. Thus, transformative leadership is needed, that is a leadership style capable of developing innovative movements, which is able to empower staff and organization into a change of way of thinking, vision development, and understanding of organizational goals and leading to unrelenting or continuous changes by managing work activities and utilizing the employees' talents, skills, ability, ideas and experiences so that every employee feels involved and responsible in completing the work (Mujiasih and Sutrisno Hadi, 2013).

Compensation is the reward or appreciation for the employees who have contributed to the realization of the company's purposes, through the activities of work (Nawawi, 2011). Panggabean (2004: 76) classified compensation into two groups, namely: Compensation can be given in various forms, both financial and

nonfinancial. There are direct and indirect financial compensations. Direct financial compensation consists of salary / wages and incentives (commissions and bonuses). While indirect financial compensation can be a variety of facilities and benefits. Non-financial compensation consists of work and work environments, such as exciting tasks, interesting new challenges, recognition, sense of accomplishment, fun colleague environment, comfortable working environment and so on. According to Sutrisno (2012), appropriate compensation not only affects the material condition of the employees, but also reassures the employees' psychology to work more diligently and to have initiatives.

II. THEORETICAL REVIEW

2.1 Employee Performance

Performance can be described as the achievement level of the implementation of an activity program or policy to realize organizational goals, objectives, visions and mission as outlined in strategic planning of an organization (Moehariono 2009: 60). The definition of employee performance according to Mangkunegara (2009: 9) is that employee performance is the work results in terms of quality and quantity achieved by employees in performing their duties in accordance with the responsibilities given to them.

Based on the above description, it can be concluded that what is meant by employee performance is the level of achievement in terms of quality and quantity achieved by an employee in the implementation of an activity program or policy to realize organizational goals, objectives, visions and missions as outlined in strategic planning of an organization in accordance with the responsibility given to the employee.

2.2 Leadership Style

Pasolong (2008) stated that leadership style is a method used by a leader in influencing, directing, encouraging, and controlling his subordinates in order to achieve organizational goals efficiently and effectively. According to Pasolong, in general the leadership style is only divided into two styles, namely the authoritarian style and democratic style. The authoritarian leadership style is usually seen as a style based on the power of position and the use of authority in performing the duties as a leader, while the democratic leadership style is associated with personal power and the participation of subordinates in the process of problem solving and decision making.

Transformational leadership is based on the influence and the relationship between leaders and followers or subordinates (Bass, 2008). Employees feel trust, admiration, loyalty and respect for their leader, and have high commitment and motivation for higher achievement and performance. A transformational leader can motivate his subordinates in three ways (Yukl, 2008), namely: (1) making them more aware of the importance of the job results, (2) encouraging them to put more priority on the organization or team than on their own, and (3) activating their needs at a higher level.

2.2.1 Transformational Leadership Style and Employee Performance

Leadership style is an important factor of a hospital institution because in reality leader can influence the moral, work life quality, and especially achievement level of an organization (Handoko, 2012). Leadership style holds an important role in the management function, which can affect employees in their work so as to achieve organizational goals (Prayatna, 2016). According to Voon *et al.*, (2012), leadership is a process of interaction that occurs between leaders and workers to achieve goals that have been determined by the management. One of the problems associated with leadership style is that many leaders can not give examples of exemplary behavior yet for their employees so their employees are still reluctant to adopt their leaders' behavior in the working environment.

Transformational leadership is based on the influence and the relationship between leaders and followers or subordinates (Bass, 2008). Employees feel trust, admiration, loyalty and respect for their leader, and have high commitment and motivation for higher achievement and performance. A transformational leader can motivate his subordinates in three ways (Yukl, 2008), namely: (1) making them more aware of the importance of the job results, (2) encouraging them to put more priority on the organization or team than on their own, and (3) activating their needs at a higher level. Transformational leadership has four characteristics, namely: charisma, inspiration, intellectual stimulation and individual attention. Based on that, the research hypothesis is formulated as follows:

H₁: Transformational leadership style has an impact on employee performance in Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta.

2.2.2 Transactional Leadership Style and Employee Performance

The first factor considered to cause the fulfillment of employee job satisfaction in health institutions such as hospitals is leadership style. A good leader is a leader who pays attention to his employees and directs

his employees in their works. According to Robbins (2012) leadership is the ability to influence a group to achieve a particular vision or a set of goals. Rivai (2014) defined leadership broadly including the process of influencing subordinates in determining organizational goals, motivating subordinates behavior to achieve goals, and influencing subordinates to improve their group and culture. Job satisfaction will have an impact on employee performance.

Transactional leaders motivate their employees by exchanging rewards for work or tasks that have been performed for example with appreciations, raising wages to subordinates who perform well. On the other hand, a transactional leader will penalize (give punishment) to followers who have low performance or are under the target (Bass, 2008). The rewards will impact the motivation of subordinates and will further impact the subordinates' performance and satisfaction. The exchange of rewards is based on agreement on the task to be performed. Transactional leaders always encourage subordinates to achieve mutually agreed levels of performance. Based on that, hence the formulated research hypothesis is:

H₂: Transactional leadership style impacts employee performance in Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta.

2.3 Compensation

Compensation is a counter-achievement of the use of labor or services provided by the workforce. Compensation is a package offered by the organization to workers in return for the use of their workforce (Wibowo, 2011). Compensation is an effort to reward an effort or work undertaken by a person. Handoko (2012) proposed that compensation is giving an employee financial payment as a remuneration of the performed works and as a motivation for the implementation of future activities. Provision of compensation is not only aimed at rewarding the performance that has been implemented, but also at a long-term goal for employees to further improve their performance. The definition of compensation mentioned above has a narrow sense because it is only in financial form.

2.3.1 Financial Compensation and Employee Performance

Compensation is an appreciation or reward for workers who have contributed to the realization of company's purposes through an activity called work (Nawawi, 2011). According to Sutrisno (2012), appropriate compensation not only affects the material condition of the employees, but also reassures the employees' psychology to work more diligently and to have initiatives. The purpose of compensation is to help organizations achieve strategic success while ensuring internal and external justice. Internal equity ensures that more challenging positions or better qualified people in organizations are paid higher. Meanwhile, external equity or external justice ensures that employment is fairly compensated in comparison with equal employment in the labor market.

One of the problems related to compensation is that there are many leaders who still tend to be unfair in providing compensation and inappropriate to employee performance, for example there are some employees who work well but are not well compensated and results in employees' salary which is not enough to fulfill their daily needs. A leader must be fair and able to monitor the performance of his employees carefully so that it can be avoided. Saraswati (2014), stated that there are two things that an institution should keep in mind in compensating. First, the compensation given should be felt fair by the employee and secondly, the amount of compensation should not be much different from that expected by the employee. If these two points can be met, the employee will feel satisfied. Based on the description above, hence the formulated research hypothesis is:

H₃: Financial compensation impacts the employee performance in Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta.

2.3.2 Non-Financial Compensation and Employee Performance

Mulyadi (2011) classified reward into two groups: intrinsic rewards of self-satisfaction earned by a person who has successfully completed his or her job well and has achieved certain goals, for example by adding responsibility, job enrichment and other works which improve one's self-esteem and encourages him or her to be the best. Extrinsic rewards consist of compensation provided to employees in the form of financial compensation such as salary, honorarium and bonuses, indirect awards such as accident insurance, vacation honoraria and sickness benefits and non-financial awards in the form of privileged workspace, special office equipment, special parking, privileged degrees and personal secretaries.

Compensation is also a factor affecting employee job satisfaction. Compensation is all income in the form of money, directly or indirectly received goods given by the company in return for services or works performed by an employee. The provision of adequate and appropriate compensation can improve employee job satisfaction and employee performance. Based on the description above, the formulated research hypothesis is:

H4: Non-financial compensation impact employee performance in Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta with mediation of job satisfaction variable.

III. FRAMEWORK

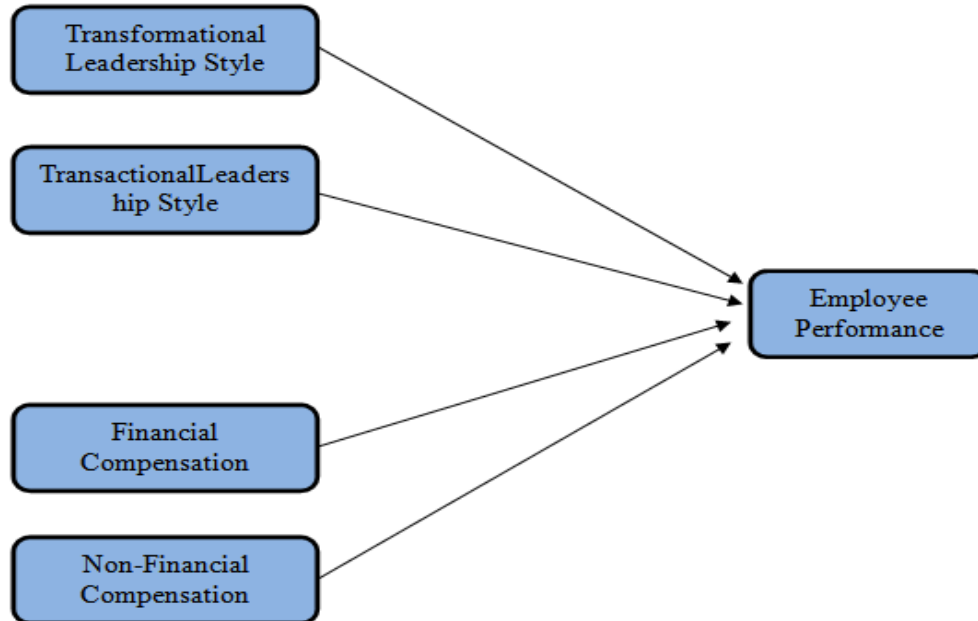


Figure 1. Framework

IV. RESEARCH METHOD

According to the time used in this study, this research is categorized as a cross sectional study. This research involved the employees of Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta

4.1 Population and Sample

The population of this study were all 180 employees working in the service department of Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta. The samples were selected using Slovin formula (Notoatmodjo, 2010).

$$n = \frac{N}{1+(N(d)^2)}$$

Information:

n : Number of samples

N : Number of Population

d : Expected trust/accuracy level (0,05) with trust level of 95%.

$$n = \frac{180}{1 + (180(0,05)^2)}$$

$$n = \frac{180}{1 + 0,45}$$

$$n = \frac{180}{1,45}$$

n = 124,13 rounded to 124

The number of samples in this study was 124 employees of Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta which was considered sufficient to represent the analyzed population.

4.2 Sampling Technique

The number of samples in this study was 124 employees of Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta which was considered sufficient to represent the analyzed population. The samples were selected by random sampling technique.

4.3 Data Collecting Method

This study used questionnaires as data collecting method. The questionnaires were structured in the form of multiple choice questions. The questionnaires in this study were given to the respondents who were willing to fill out. The answers to the questions had been made available. The questionnaire distribution were assisted by the personnel department of Prof. Dr. R. Soeharso Orthopedic Hospital of Surakarta.

4.4 Data Analysis Technique

4.4.1 Descriptive statistics

Sekaran (2006) wrote that descriptive statistics provide an overview of data seen from the theoretical range, actual range, average count (mean) and standard deviation.

4.4.2 Hypotheses Testing

The hypotheses were tested by using multiple regression analysis with the following equation:

$$Y = \beta_0 + \beta_1X_1+ \beta_2X_2+ \beta_3X_3 + \beta_4X_4+ \varepsilon$$

In which:

Y= Employee Performance

X₁= Transformational Leadership Style;

X₂= Transactional Leadership Style;

X₃= Financial Compensation;

X₄= Non-Financial Compensation;

β₀= Constants;

β= Regression coefficient;

ε= Random error in the regression model of the population.

V. DATA ANALYSIS RESULTS AND DISCUSSION

5.1 The Impacts of Independent Variables on Dependent Variables

Table1. The Impacts of Independent Variables on Dependent Variables Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-6.305	3.008		-2.096	.038
1 Transactional	.247	.118	.185	2.095	.038
Transformational	.384	.124	.275	3.102	.002
Financial	.239	.094	.205	2.551	.012
Non-Financial	.278	.110	.223	2.529	.013

a. Dependent Variable: Employee Performance

5.1.1 The Impact of Transformational Leadership Style on Employee Performance

The result of the study on the impact of transformational leadership style on the employee performance obtained by t_{count} of 3,102 with p = 0,002. Therefore the value of t_{count} is greater than t_{table} (3,843 > 1,985) and p < 0,05; then H₁ is accepted, which means that the transformational leadership style significantly impacts the employees' performance in Dr. R. Soeharso Orthopedic Hospital of Surakarta.

Transformational leadership encourages employees to perform better than what is expected thus it improves the employees' performance. Transformational leadership style impacts employees' performance because the indicators of transformational leadership style are reflected by the leader's characteristics perceived by the employees such as charisma, inspirational value and personal attention.

5.1.2 The Impact of Transactional Leadership Style on Employee Performance

Based on the results of the study on the impact of transactional leadership style on the employees' performance, it was obtained t_{count} value of 2,095 with p = 0,038. Therefore t_{count} was bigger than t_{table} (2,095 > 1,985) and p < 0,05; then H₂ is accepted, which means that the transactional leadership style significantly impacts the employees' performance of Dr. R. Soeharso Orthopedic Hospital of Surakarta.

Transactional leadership impacts employees in terms of encouragement to perform better to achieve the desired reward. This is in line with Howell and Avolio's findings (1993) which stated that leader and employee come to an agreement related to the reward to be given to employee upon achieving certain level of performance.

5.1.3 Impact of Financial Compensation on Employee Performance

The analysis results of the impact of financial compensation on employee performance showed t_{count} value of 2,551 with $p= 0,012$. Because t_{count} was greater than t_{table} ($2,551 > 1,985$) and $p < 0,05$; H_3 is accepted, which means that financial compensation significantly impacts the employees’ performance in Dr. R. Soeharso Orthopedic Hospital of Surakarta.

According to the analysis results, performance improvement can be pursued through financial compensation, thus the hospital is expected to provide just and fair financial compensation in accordance to the established standards.

Financial compensation is the payment given by the company to employees in the form of money either directly or indirectly as a remuneration for their contribution to the company. The amount of compensation received by employees reflects the status, recognition and level of fulfillment enjoyed by employees and their families. Thus if the compensation given to employees is in accordance with their needs, the employees will work well so that their performance will increase. (Eta Setyawan, *et al.*, 2014)

5.1.4 The Impact of Non-Financial Compensation on Employee Performance

The analysis results of the impact of non-financial compensation on employee performance showed t_{count} value of 2,529 with $p= 0,013$. Because t_{count} was greater than t_{table} ($2,529 > 1,985$) and $p < 0,05$; H_4 is accepted, which means that non-financial compensation significantly impacts the employees’ performance in Dr. R. Soeharso Orthopedic Hospital of Surakarta.

Non-financial compensation in the work environment and work itself is closely related to the process of task completion assigned by the hospital, meaning that the needs during the work process must be met in accordance with the applicable rules and standards. Good work and environmental factors will make employees feel comfortable at work, so that they tend to work better which will improve their performance.

5.2 F Testing

Table2. The Impactsof Transformational and Transactional Leadership Styles, and Financial and Non-Financial CompensationsOn The Employee Performance

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1209.328	4	302.332	31.105	.000 ^b
	Residual	1156.631	119	9.720		
	Total	2365.960	123			

a. Dependent Variable: Employee Performance

b. Predictors: (Constant), Non-Financial, Tranformational, Financial, Transactional

This test was used to test the significance of regression coefficients simultaneously whether there is any impacts among transformational leadership style, transactional leadership style, financial compensation and non-financial compensation on the employees’ performance of Dr.R. Soeharso Orthopedic Hospital of Surakarta.

According to the F test analysis results, it was obtained F_{count} value of $31,105 > 2,45$ with probability of $0,000 < 0,05$ thus H_0 is rejected which means transformational leadership style, transactional leadership style, financial compensation and non-financial compensation simultaneously impact the employees’ performance of Dr.R. Soeharso Orthopedic Hospital of Surakarta. This also proved that the selected variables of transformational leadership style, transactional leadership style, financial compensation and non-financial compensation as the predictors employees’ performance in Dr.R. Soeharso Orthopedic Hospital of Surakarta appropriately fit in the model category.

5.3 Determination Coefficient (R²)

Table3.Proportion ofthe impactsof transformational and transactional leadership styles, and financial and non-financial compensations on the employee performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.715 ^a	.511	.495	3.11763

a. Predictors: (Constants), Non-Financial, Tranformational, Finantial, Transactional

Coefficient determination is used to measure the proportion or presentation of contributions of all independent variables in the regression model to the dependent variable. The calculation results for the value of

R^2 obtained the coefficient determination value or R^2 of 0.511. This means the variation in the employee performance changes in Dr. R. Soeharso Orthopedics Hospital of Surakarta can be mapped as follows: 51.1% of the changes can be attributed to the factors of transformational leadership style, transactional leadership style, financial compensation and non-financial compensation, while the remaining 48.9% can be attributed to other factors which were not observed in this research.

VI. CONCLUSION

According to the research results on the impacts of transformational leadership style, transactional leadership style, financial compensation and non-financial compensation on employee performance with employee job satisfaction as mediation variable in Dr.R. Soeharso Orthopedic Hospital of Surakarta, the following conclusions can be drawn:

1. Transformational leadership style significantly impacts employee performance in Dr.R. Soeharso Orthopedic Hospital of Surakarta.
2. Transactional leadership style significantly impacts employee performance in Dr.R. Soeharso Orthopedic Hospital of Surakarta.
3. Financial compensation significantly impacts employee performance in Dr.R. Soeharso Orthopedic Hospital of Surakarta.
4. Non-financial compensation significantly impacts employee performance in Dr.R. Soeharso Orthopedic Hospital of Surakarta.
5. Transformational leadership style, transactional leadership style, financial compensation and non-financial compensation simultaneously impact the employees' performance of Dr.R. Soeharso Orthopedic Hospital of Surakarta.

VII. SUGGESTION

Hospital management should pay more attention to the leadership style that is implemented to the employees to always provide job satisfaction according to the employees' capacity, appreciate the employees performance by providing the appropriate compensation, provide a comfortable work place, give employee opportunity to develop career and give freedom to work accordingly to their principles.

REFERENCES

- [1]. Arikunto, Suharsimi. 2010. *Prosedur Penelitian Suatu Pendekatan Praktik*. Jakarta : Rineka Cipta.
- [2]. Bass, B.M, (2008), *Handbook of leadership, theory, research, and application*, New York: Free Press.
- [3]. Budiyono. 2010. *Statistika untuk Penelitian*. Surakarta: Sebelas Maret University Press.
- [4]. Ghozali, Imam, 2012, *Analisis Multivariate Dengan Program SPSS*, Badan Penerbit Universitas Diponegoro.
- [5]. Handoko, T. Hani. 2012. *Manajemen Personalial dan Sumber Daya Manusia*. Yogyakarta: BPFE.
- [6]. Hidayat, A. Alimul. 2007. *Metode Penelitian Kebidanan Dan Tehnik Analisis Data*. Surabaya: Salemba.
- [7]. Mangkunegara, A. A. Anwar Prabu, 2009, *Manajemen Sumber Daya Manusia Perusahaan*, PT. Remaja Rosdakarya, Bandung.
- [8]. Moeharionno, 2009, *Pengukuran Kinerja Berbasis Kompetensi*, Ghalia Indonesia, Bogor.
- [9]. Muttaqien, Fauzan. 2014. *Pengaruh Kepemimpinan dan Kompensasi terhadap Kepuasan Kerja Karyawan Outsourcing pada PT. BRI (Persero)*, tbk, Cabang Lumajang. *Jurnal WIGA*. Vol. 4 No. 1.
- [10]. Mulyadi, 2011, *Sistem Akuntansi*, Salemba Empat, Jakarta.
- [11]. Nawawi, H. 2011. *Manajemen Sumber Daya Manusia untuk Bisnis yang Kompetitif*. Yogyakarta : Gajah Mada University Press.
- [12]. Notoatmodjo, S. 2010. *Metodologi Penelitian Kesehatan*. Jakarta : Rineka Cipta.
- [13]. Panggabean, Mutiara S, 2004, *Manajemen Sumber Daya Manusia*, Glialia Indonesia, Bogor.
- [14]. Pasolong Harbani, 2008, *Kepemimpinan Birokrasi*, Alfabeta, Bandung.
- [15]. Prayatna, Agus Heri dan Made Subudi. 2016. *Pengaruh Gaya Kepemimpinan Terhadap Stres Kerja dan Kepuasan Kerja Karyawan Pada Fave Hotel Seminyak*. *E-Jurnal Manajemen Unud*, 5(2): pp: 845-872.
- [16]. Rivai, Veithzal. 2014. *Manajemen Sumber Daya Manusia untuk Perusahaan: Dari Teori Ke Praktik*. Ed 2. Jakarta: Rajawali.
- [17]. Robbins dan Judge. 2012. *Perilaku Organisasi*, Buku 1, Edisi 12. Jakarta: Salemba Empat.
- [18]. Saraswati, Yosiana Desi. 2014. *Preferensi Faktor-Faktor Kinerja Karyawan Pada Perusahaan Daerah Air Minum (Pdam) Kabupaten Demak*. Tesis. Program Pascasarjana, Universitas Diponegoro.
- [19]. Sekaran, Uma, 2006. *Metodologi Penelitian Untuk Bisnis*, Jakarta: Salemba Empat.
- [20]. Sugiyono, 2012, *Metode Penelitian Bisnis*, Bandung : Alfabeta.
- [21]. Sutrisno, Edy. 2012. *Manajemen Sumber Daya Manusia*. Jakarta : Kencana.
- [22]. Voon, M.L., M.C Lo K.S Ngui, and N.B. Ayob. 2012. *The Influence Of Leadership Styles On Employees' Job Satisfaction In Public Sector Organizations In Malaysia*. *International Journal of Business, Management and Social Sciences*, 2(1): pp : 24-32.
- [23]. Wibowo, 2011, *Manajemen Kinerja*, Rajawali, Jakarta.
- [24]. Yukl, 2008, *Leadership in Organizations*, Prentice Hall.

Rohmadi "The Impacts of Transformational and Transactional Leadership Styles, And Financial and Non-Financial Compensations on Employee Performance in Prof. Dr. R. Soeharso Orthopedic Hospital Of Surakarta" *International Journal of Business and Management Invention (IJBMI)* , vol. 07, no. 05, 2018, pp. 88–94.