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THE ROLE OF LEADERSHIP STYLE AND COMPENSATION IN ENHANCING EMPLOYEE PERFORMANCE: THE MEDIATING EFFECT OF WORK MOTIVATION

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Abstract:

This study aims to examine the effect of leadership style and compensation on the performance of production employees, with work motivation as a mediating variable, at PT Indoprima Gemilang. A quantitative research approach was employed using a survey method. The population of this study consisted of production employees, with a sample of 100 respondents selected through proportionate stratified random sampling. Data were collected using structured questionnaires and analyzed using Structural Equation Modeling based on Partial Least Squares (SEM-PLS) to examine both direct and indirect relationships among variables. The results indicate that leadership style and compensation have a positive and significant effect on work motivation and employee performance. In addition, work motivation has a positive and significant effect on employee performance and partially mediates the relationship between leadership style and employee performance, as well as between compensation and employee performance. These findings highlight the importance of effective leadership practices and appropriate compensation systems in enhancing employee motivation and improving production performance.

Keywords: Leadership Style, Compensation, Work Motivation, Employee Performance

INTRODUCTION

In an increasingly competitive manufacturing environment, organizations are required to continuously improve employee performance to maintain productivity and operational efficiency. Human resources have become strategic assets that contribute not only to daily operations but also to long-term organizational sustainability. In production-oriented companies, employee performance is particularly critical, as it directly affects output quality, efficiency, and the achievement of organizational targets.

Previous studies indicate that employee performance is influenced by various managerial factors, particularly leadership style and compensation. Effective leadership plays a central role in directing, motivating, and engaging employees to achieve performance goals. Leadership styles that emphasize participation, support, and empowerment have been shown to positively influence employee attitudes and performance, whereas ineffective leadership approaches may reduce motivation and work enthusiasm. Similarly, compensation serves as a key instrument for rewarding employee contributions and encouraging performance improvement. Fair and competitive compensation systems are associated with higher levels of motivation and performance, while perceived inequity in compensation may lead to dissatisfaction and reduced work outcomes.

Despite extensive research on leadership and compensation, empirical findings regarding their effects on employee performance remain inconsistent across organizational contexts. Some



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studies report strong positive relationships, while others suggest weaker or indirect effects. These inconsistencies indicate the presence of a research gap, particularly concerning the mechanisms through which leadership style and compensation influence performance. Work motivation is frequently identified as a critical internal factor that may mediate these relationships, yet its mediating role has not been sufficiently examined in the context of manufacturing companies in Indonesia.

Within this context, PT Indoprima Gemilang has experienced increasing production targets in recent years; however, improvements in production realization and operational efficiency have not always been achieved consistently. Internal conditions indicate variations in employee motivation, discipline, and performance across production units, as well as differences in compensation structures that may influence employees' perceptions of fairness. These conditions highlight the importance of examining managerial factors that contribute to employee motivation and performance in the production environment.

Therefore, this study aims to examine the effect of leadership style and compensation on the performance of production employees, with work motivation serving as a mediating variable, at PT Indoprima Gemilang. This research is expected to contribute theoretically by clarifying the mediating role of work motivation in human resource management studies and by providing managerial insights to enhance leadership practices and compensation systems in order to improve sustainable employee performance.

Resource-Based View (RBV) Theory. The Resource-Based View (RBV) posits that sustainable competitive advantage is derived from internal organizational resources that are valuable, rare, inimitable, and non-substitutable (Gerhart and Feng, 2021). Within this framework, human resources are considered strategic assets because employee skills, motivation, and commitment are difficult for competitors to replicate. Effective leadership and fair compensation systems represent strategic mechanisms through which organizations develop and retain high-quality human capital, thereby enhancing employee motivation and performance (Arshad et al., 2025). Accordingly, RBV provides a theoretical foundation for understanding how leadership style and compensation influence employee performance through work motivation.

Employee Performance. Employee performance refers to the level of achievement demonstrated by employees in completing work tasks in accordance with organizational standards and objectives (Kasmir, 2020). In production-oriented organizations, performance is commonly evaluated based on quantity of output, quality of work, responsibility, cooperation, and initiative (Lestari and Rahmawati, 2024). Previous studies indicate that employee performance is influenced by managerial factors such as leadership style, compensation, and work motivation (Khan et al., 2020; Fulmer et al., 2023). High employee performance reflects effective utilization of human resources and contributes directly to organizational productivity and competitiveness.

Work Motivation. Work motivation represents internal and external forces that drive employees to exert effort, persist, and perform optimally in their work roles (Gagné et al., 2022). Motivation can be reflected through work enthusiasm, willingness to develop competencies, clarity of work goals, job suitability, and supportive working conditions (Supriadi et al., 2020). Empirical evidence consistently shows that motivated employees demonstrate higher levels of performance due to increased focus, commitment, and persistence (Vo et al., 2022; Elamalki et al., 2024a).

H1: Work motivation has a positive and significant effect on employee performance.

Leadership Style. Leadership style refers to behavioral patterns and approaches used by leaders to influence, direct, and motivate subordinates toward achieving organizational goals (Cakir and Adiguzel, 2020). Leadership effectiveness can be assessed through authority and influence,

achievement orientation, intellectual capacity, decisiveness, and initiative in responding to change (Sumarsid et al., 2024). Studies indicate that effective leadership positively influences employee motivation and performance by fostering engagement, clarity, and commitment (Khan et al., 2020; Jiatong et al., 2022).

H2: Leadership style has a positive and significant effect on work motivation.

H3: Leadership style has a positive and significant effect on employee performance.

Compensation. Compensation refers to all financial and non-financial rewards provided to employees in return for their contributions (Watkins and Fusch, 2022). Compensation indicators include basic salary, performance incentives, health benefits, work facilities, and additional allowances (Fulmer et al., 2023). Fair and competitive compensation systems enhance employee motivation and performance by strengthening perceptions of equity and organizational support (Jo and Shin, 2025). Motivation further mediates the relationship between compensation and performance by reinforcing employees' willingness to exert effort.

H4: Compensation has a positive and significant effect on work motivation.

H5: Compensation has a positive and significant effect on employee performance.

H6: Work motivation mediates the relationship between leadership style and employee performance.

H7: Work motivation mediates the relationship between compensation and employee performance.

Conceptual Framework. Based on RBV theory and previous empirical studies, this research proposes a conceptual framework in which leadership style and compensation influence employee performance both directly and indirectly through work motivation. The conceptual framework of this study is presented in Figure 1.

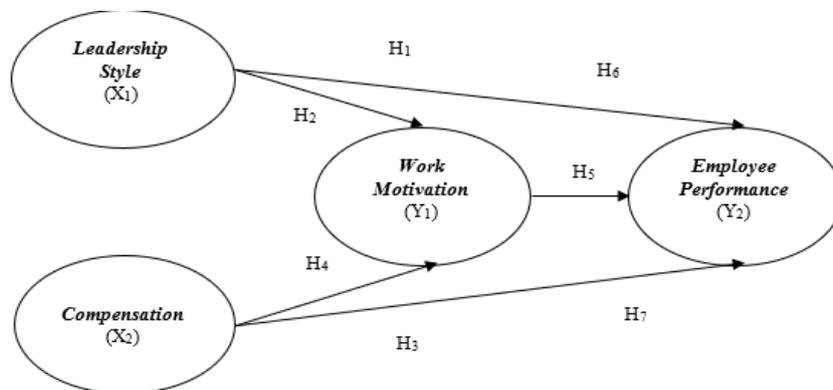


Figure 1. Research Concept

METHODS

Research Location. This study was conducted at PT Indoprima Gemilang, a manufacturing company specializing in automotive components located in Surabaya, East Java, Indonesia. The research site was purposively selected due to its relatively large number of production employees and its complex organizational structure, which provides a relevant context for examining leadership practices, compensation systems, employee motivation, and performance dynamics. The manufacturing environment of the company enables an empirical investigation of human resource management issues that are closely related to productivity and operational effectiveness.

Population. The population of this study comprised all production employees actively working at PT Indoprima Gemilang at the time of data collection. Population refers to the entire set of individuals who share specific characteristics relevant to the research objectives Mushofa et al.,



2024). In this study, the population consisted of 200 production employees, including permanent and contract workers, while supervisory and managerial positions were excluded. This population was selected because production employees directly experience leadership styles and compensation policies, which subsequently influence their work motivation and performance (Subhaktiyasa, 2024).

Sample Size and Sampling Technique. The sample represents a subset of the population selected to reflect its characteristics adequately. The minimum sample size was determined based on the guideline proposed by Asrulla et al. (2023), which recommends a ratio of 5–10 respondents per indicator in quantitative studies. Given that the research instrument consisted of 20 indicators, the minimum required sample size was 100 respondents (20×5), which is considered sufficient for mediation analysis using SEM-PLS.

The sampling technique employed was probability sampling, specifically proportionate stratified random sampling. This method ensures that each member of the population has an equal chance of being selected while maintaining proportional representation across different employment categories (Subhaktiyasa, 2024). Accordingly, the sample comprised 52 permanent employees and 48 contract employees, proportionally representing the population structure.

Data Collection Methods. This study employed a combination of qualitative and quantitative data collection techniques to enhance data accuracy and depth. Primary data were collected through semi-structured interviews and a survey questionnaire.

Interviews were conducted with selected production supervisors, supervisors, and production employees to obtain in-depth insights into leadership practices, compensation systems, and factors influencing motivation and performance. This semi-structured approach allowed flexibility in exploring emerging issues during the interview process (Karimuddin et al., 2022).

The main quantitative data were collected using a structured questionnaire developed based on validated indicators of leadership style, compensation, work motivation, and employee performance. The questionnaire was distributed both in printed form and via Google Forms to facilitate accessibility and improve response rates. Responses were measured using a five-point Likert scale, which is widely applied in management and social science research to capture perceptions and attitudes Koo and Yang, 2025).

Data Analysis Technique. Data analysis was conducted using both descriptive and inferential statistical techniques. Descriptive analysis was applied to summarize respondents' demographic characteristics and to describe their perceptions of the studied variables through frequencies, percentages, and mean values (Sudirman et al., 2023; Subhaktiyasa et al., 2025).

Inferential analysis was performed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). This technique was selected due to its suitability for complex models involving mediation effects and relatively limited sample sizes, as well as its minimal distributional assumptions (Hair and Alamer, 2022; Rahadi, 2023). The analysis included evaluation of the measurement model (outer model), assessing convergent validity, discriminant validity, construct reliability, and the structural model (inner model), which examined path coefficients, coefficient of determination (R^2), predictive relevance (Q^2), effect size (f^2), and hypothesis testing through bootstrapping procedures (Hair et al., 2024).

PLS-SEM analysis was conducted using SmartPLS software, enabling robust testing of both direct and indirect (mediated) relationships among leadership style, compensation, work motivation, and employee performance.

RESULT AND DISCUSSION



Validity and Reliability Testing. Instrument testing was conducted to ensure that all measurement items used in this study were both valid and reliable prior to hypothesis testing. Validity testing aims to assess the accuracy of each questionnaire item in representing the latent constructs, while reliability testing evaluates the internal consistency of the measurement instruments.

Validity Test. The validity test was performed using item-total correlation analysis, which measures the correlation between individual item scores and the total score of their respective constructs. According to Hair et al. (2024), an indicator is considered valid if it has a Pearson correlation coefficient greater than 0.30 and is statistically significant at the 5% level.

Table 1. Validity Test Results

No.	Variable	Item Code	Item-Total Correlation	Significance	Remarks
1	Leadership Style	X _{1.1}	0,809	Significant	Valid
		X _{1.2}	0,768	Significant	Valid
		X _{1.3}	0,801	Significant	Valid
		X _{1.4}	0,798	Significant	Valid
		X _{1.5}	0,716	Significant	Valid
2	Compensation	X _{2.1}	0,793	Significant	Valid
		X _{2.2}	0,766	Significant	Valid
		X _{2.3}	0,777	Significant	Valid
		X _{2.4}	0,808	Significant	Valid
		X _{2.5}	0,726	Significant	Valid
3	Work Motivation	Y _{1.1}	0,853	Significant	Valid
		Y _{1.2}	0,735	Significant	Valid
		Y _{1.3}	0,761	Significant	Valid
		Y _{1.4}	0,795	Significant	Valid
		Y _{1.5}	0,775	Significant	Valid
4	Employee Performance	Y _{2.1}	0,788	Significant	Valid
		Y _{2.2}	0,844	Significant	Valid
		Y _{2.3}	0,768	Significant	Valid
		Y _{2.4}	0,709	Significant	Valid
		Y _{2.5}	0,802	Significant	Valid

Source: Processed research data (2025)

The results indicate that all indicators measuring leadership style, compensation, work motivation, and employee performance exhibit item-total correlation values exceeding the minimum threshold of 0.30 and are statistically significant. These findings confirm that each questionnaire item is capable of accurately representing the construct it is intended to measure. Therefore, all indicators were retained for further analysis.

Reliability Test. Following the validity assessment, reliability testing was conducted using Cronbach's Alpha to evaluate the internal consistency of the measurement instruments. As suggested by Hair et al. (2024), a construct is considered reliable if its Cronbach's Alpha value exceeds 0.60.

Table 2. Reliability Test Results



No	Variable	Cronbach's Alpha	Remarks
1	Leadership Style	0,838	Reliabel
2	Compensation	0,842	Reliabel
3	Work Motivation	0,833	Reliabel
4	Employee Performance	0,844	Reliabel

Source: Processed research data (2025)

The reliability test results show that leadership style, compensation, work motivation, and employee performance all have Cronbach's Alpha values above the recommended threshold. It indicates a high level of consistency among the indicators within each construct, confirming that the instruments used in this study are reliable and suitable for hypothesis testing.

Path Analysis and Hypothesis Testing. Path analysis was employed to examine the direction, strength, and significance of causal relationships among the latent variables in the structural model, namely leadership style (X1), compensation (X2), work motivation (Y1), and employee performance (Y2). Hypothesis testing was conducted using the bootstrapping procedure within the Partial Least Squares-Structural Equation Modeling (PLS-SEM) framework.

A relationship is considered statistically significant when the t-statistic exceeds 1.96 or the p-value is less than 0.05, as recommended in PLS-SEM literature (Rahadi, 2023).

Direct Effects. The analysis reveals that leadership style has a positive and significant effect on employee performance ($\beta = 0.329$; $t = 3.076$; $p = 0.002$). This finding indicates that effective leadership contributes directly to improved employee performance. In the context of a manufacturing company such as PT Indoprima Gemilang, leadership effectiveness is reflected in the ability of supervisors to provide clear direction, coordinate production activities, and maintain a conducive work climate that supports operational targets.

Table 3. Path Analysis and Hypothesis Testing Results

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Leadership Style (X1) → Employee Performance (Y2)	0,329	0,319	0,107	3,076	0,002
Leadership Style (X1) → Work Motivation (Y1)	0,609	0,608	0,093	6,517	0,000
Compensation (X2) → Employee Performance (Y2)	0,290	0,301	0,092	3,141	0,002
Compensation (X2) → Work Motivation (Y1)	0,297	0,297	0,097	3,056	0,002
Work Motivation (Y1) → Employee Performance (Y2)	0,329	0,328	0,112	2,938	0,003

Source: Processed research data (2025)

Leadership style also demonstrates a strong, positive, and significant effect on work motivation ($\beta = 0.609$; $t = 6.517$; $p < 0.001$). This result suggests that leadership plays a crucial role in shaping employees' internal drive, commitment, and enthusiasm for work. Supportive leadership behaviors, recognition, and clear communication enhance employees' motivation to perform consistently in demanding production environments.

Compensation is found to have a positive and significant effect on employee performance ($\beta = 0.290$; $t = 3.141$; $p = 0.002$). This finding confirms that a fair and competitive compensation system



functions not only as financial remuneration but also as a managerial tool that reinforces employees' willingness to meet performance standards. In production-based organizations, compensation reflects organizational appreciation for employees' contributions, which in turn enhances performance outcomes.

In addition, compensation has a positive and significant effect on work motivation ($\beta = 0.297$; $t = 3.056$; $p = 0.002$). This result indicates that appropriate compensation policies strengthen employees' psychological motivation by fostering perceptions of fairness and recognition, thereby encouraging stronger commitment and work enthusiasm.

Work motivation itself has a positive and significant effect on employee performance ($\beta = 0.329$; $t = 2.938$; $p = 0.003$). This finding highlights the importance of internal motivational factors in determining how effectively employees perform their tasks. In the context of PT Indoprima Gemilang, motivated employees tend to demonstrate greater persistence, responsibility, and consistency in achieving production targets.

Mediating Effects of Work Motivation. To examine whether work motivation mediates the relationship between leadership style and compensation on employee performance, indirect effect analysis was conducted using the bootstrapping method.

Table 4. Indirect Effects of Work Motivation in Mediating the Relationship Between Leadership Style, Compensation, and Employee Performance

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Leadership Style (X1) → Work Motivation (Y1) → Employee Performance (Y2)	0,200	0,200	0,077	2,597	0,009
Compensation (X2) → Work Motivation (Y1) → Employee Performance (Y2)	0,098	0,097	0,047	2,086	0,037

Source: Processed research data (2025)

The results show that the indirect effect of leadership style on employee performance through work motivation is positive and significant ($\beta = 0.200$; $t = 2.597$; $p = 0.009$). This finding indicates that work motivation partially mediates the relationship between leadership style and employee performance. Leadership influences performance not only directly but also indirectly by enhancing employees' motivational states. It suggests that effective leadership strengthens performance outcomes by fostering internal motivation among employees.

Similarly, the indirect effect of compensation on employee performance through work motivation is also positive and significant ($\beta = 0.098$; $t = 2.086$; $p = 0.037$). This result confirms that work motivation serves as a partial mediator in the relationship between compensation and employee performance. Compensation policies that are perceived as fair and proportional enhance employees' motivation, which subsequently improves performance levels.

Overall, these findings demonstrate that leadership style and compensation influence employee performance both directly and indirectly through work motivation. It reinforces the strategic role of motivation as a psychological mechanism that translates managerial practices into sustainable performance improvements within manufacturing organizations.

The Effect of Leadership Style on Work Motivation. The results of the structural model analysis indicate that leadership style has a positive and significant effect on employees' work



motivation at PT Indoprime Gemilang. This finding confirms that effective leadership practices play a crucial role in shaping employees' internal drive, work enthusiasm, and commitment to organizational goals. In other words, the more effective the leadership style demonstrated by supervisors and managers, the higher the level of work motivation exhibited by production employees.

Conceptually, leadership style in this study is reflected through key behavioral indicators, including decision-making capability, clarity of direction, coordination with subordinates, communication effectiveness, and initiative in problem-solving. The dominance of coordination-related indicators suggests that leadership effectiveness is strongly perceived through leaders' ability to align tasks, clarify roles, and synchronize workflow. Effective coordination reduces ambiguity and work-related stress, thereby fostering psychological comfort and increasing intrinsic motivation among employees.

From a managerial perspective, this result implies that leadership effectiveness in manufacturing environments extends beyond formal authority and control mechanisms. Instead, leadership functions as a social and psychological process that directly influences employees' motivation by creating trust, involvement, and a sense of belonging. However, descriptive findings also indicate that communication-related aspects received relatively lower evaluations, suggesting the need for leaders to strengthen two-way communication to enhance motivational outcomes further.

This empirical finding is consistent with prior studies demonstrating a positive relationship between leadership style and work motivation. Jannah dkk. (2021) found that transformational leadership significantly enhances employee motivation in manufacturing firms in Indonesia. Similarly, Shang (2023) reported that participative leadership improves motivation by fostering trust and open communication in the automotive industry. Additional empirical support is provided by Edevbie and McWilliams (2023), Elamalki et al. (2024a), Sadiq and Abdulla (2024), and Rahmanda and Rino (2025), all of whom confirm that supportive, ethical, and communicative leadership styles significantly strengthen employees' intrinsic motivation.

The Effect of Leadership Style on Employee Performance. The results indicate that leadership style exerts a positive and significant influence on employee performance at PT Indoprime Gemilang. This finding suggests that leadership quality directly contributes to employees' productivity, work quality, responsibility, and initiative. Effective leadership provides direction, structure, and psychological support, enabling employees to perform more efficiently and consistently.

Leadership indicators such as decision-making effectiveness, coordination, communication, and problem-solving capacity highlight that leadership influences performance not merely through authority, but through the leader's ability to align human resources with operational goals. Strong coordination emerged as a dominant indicator, emphasizing the importance of clear workflows and task integration in production environments.

Although leadership practices were generally evaluated positively, communication-related aspects still present an opportunity for improvement. Enhancing leader-employee communication can further strengthen leadership effectiveness and optimize performance outcomes.

This result is supported by extensive empirical evidence. Shafi et al. (2025) found that transformational leadership significantly enhances employee performance in the banking sector. Similarly, Sarmawa (2020), Avwerhonyo and Sokoh (2023), Riyono et al. (2023), Bonini et al. (2024), and Desta and Mulie (2024) consistently demonstrate that adaptive, participative, and ethical leadership styles positively affect employee performance across various organizational contexts.



The Effect of Compensation on Work Motivation. The findings also reveal that compensation has a positive and significant effect on work motivation among employees at PT Indoprima Gemilang. This result indicates that both financial and non-financial rewards play an essential role in stimulating employees' internal drive and willingness to perform optimally. Fair, adequate, and competitive compensation systems foster a sense of appreciation, which subsequently enhances employees' motivation to contribute to organizational objectives.

In this study, compensation is operationalized through indicators such as base salary, performance-based incentives, health and safety benefits, work facilities, and additional allowances. The strong contribution of salary and incentive indicators suggests that employees closely associate motivation with the perceived fairness between effort, responsibility, and rewards received. When compensation aligns with workload and performance outcomes, employees are more likely to feel valued and motivated.

Despite being generally rated as good, variations in respondents' assessments indicate opportunities for improvement, particularly regarding consistency and perceived fairness. Strengthening transparency and equity in compensation policies may further enhance employees' motivational levels and reinforce positive work attitudes.

These findings align with previous empirical evidence. Sorn et al. (2023) demonstrated that performance-based bonuses significantly increase employee motivation in Thailand's automotive sector. Similarly, Savira et al. (2024) found that perceived compensation fairness enhances motivation in Indonesian manufacturing firms. Further support comes from Mohammed and Sebyala (2020), Singhvi and Sharma (2025), and Sjarifudin et al. (2025), who emphasize that integrated financial and non-financial compensation systems generate stronger motivational effects than monetary rewards alone.

The Effect of Compensation on Employee Performance. The analysis confirms that compensation has a positive and significant effect on employee performance at PT Indoprima Gemilang. This finding indicates that compensation functions not only as a reward mechanism but also as a strategic tool for enhancing productivity, work quality, and responsibility.

Compensation components such as performance incentives and fairness-based rewards play a dominant role in shaping employees' performance perceptions. When employees perceive a direct link between performance outcomes and rewards, they are more inclined to maintain and improve their performance levels.

Although the compensation system was generally perceived positively, variations in employee perceptions highlight the importance of ensuring consistency and transparency. Improving these aspects may amplify the positive effect of compensation on performance.

These findings are consistent with prior studies. Zhenjing et al., (2022). Fulmer et al. (2023), Gazi et al. (2024), Ullah et al. (2024), and Liu et al. (2025) all confirm that fair, performance-based compensation systems significantly enhance employee performance by increasing satisfaction, motivation, and organizational commitment.

The Effect of Work Motivation on Employee Performance. The results demonstrate that work motivation has a positive and significant effect on employee performance. This finding underscores motivation as a key internal driver that determines employees' effort, persistence, and commitment to achieving high performance standards.

Motivation indicators such as internal drive, competency development readiness, goal clarity, job fit, and supportive work conditions illustrate that motivation is influenced by both psychological and organizational factors. Job-skill alignment emerged as a dominant indicator, suggesting that employees perform better when their competencies match their assigned roles.

While motivation levels were generally adequate, lower evaluations related to career development opportunities suggest that structured career paths further enhance motivation and long-term performance.

This result aligns with previous research by Antara et al. (2021), Adzansyah et al. (2023), and Gandung et al. (2023). Esisuarni et al. (2024), Prayoga and Gumilar (2024), all of which confirm that higher motivation leads to improved employee performance across organizational settings.

The Mediating Role of Work Motivation in the Relationship Between Leadership Style and Employee Performance. The mediation analysis reveals that work motivation partially mediates the relationship between leadership style and employee performance. It indicates that leadership influences performance both directly and indirectly through motivation. Effective leadership enhances employees' psychological states, which subsequently translates into improved performance outcomes.

This partial mediation suggests that leadership practices not only shape motivation but also directly affect performance through direction-setting, supervision, and role modeling. However, motivated employees respond more positively to leadership initiatives, thereby strengthening performance outcomes.

This finding is consistent with prior studies by Vo et al. (2022), Mariyatha (2023), Puryanti et al. (2023), Nusraningrum et al. (2024), and Pardede (2024), which highlight motivation as a critical psychological mechanism linking leadership and performance.

The Mediating Role of Work Motivation in the Relationship Between Compensation and Employee Performance. The results further indicate that work motivation partially mediates the relationship between compensation and employee performance. This finding implies that compensation influences performance not only directly but also indirectly by enhancing employees' motivation.

Fair and proportional compensation fosters a sense of appreciation and recognition, which strengthens motivation and encourages employees to perform better. In manufacturing contexts, where performance targets and consistency are critical, motivated employees translate compensation satisfaction into tangible performance improvements.

This finding is supported by empirical evidence from Wahyuni et al. (2022), Hafidzi et al. (2023), Masruroh et al. (2023), Ernawati et al. (2024), Liu et al. (2025), and Sumarjo et al. (2025), all of which confirm the mediating role of motivation in the compensation-performance relationship.

CONCLUSION

This study was conducted in response to the increasing demands for productivity, efficiency, and performance consistency in the manufacturing sector, which requires organizations to manage human resources strategically. PT Indoprima Gemilang, as a production-based manufacturing company, faces challenges related to leadership effectiveness, compensation fairness, employee motivation, and performance sustainability. Grounded in the Resource-Based View (RBV), this research emphasizes that internal organizational resources—particularly leadership capability, compensation systems, and employee motivation—constitute strategic assets that can generate sustainable competitive advantage. Accordingly, this study examines how leadership style and compensation influence employee performance, both directly and indirectly through work motivation.

The empirical results demonstrate that leadership style and compensation each have positive and significant effects on work motivation and employee performance. Leadership style significantly enhances employee motivation and directly improves performance, indicating that



effective leadership behaviors – such as clear direction, decisiveness, and supportive supervision – play a critical role in driving productive employee behavior. Compensation also significantly influences motivation and performance, confirming that fair and performance-based reward systems function as both economic and psychological incentives. Furthermore, work motivation has a significant positive effect on employee performance and partially mediates the relationships between leadership style and performance, as well as between compensation and performance. These findings indicate that motivation acts as a psychological mechanism through which leadership and compensation translate into improved performance outcomes.

Based on these findings, management at PT Indoprima Gemilang is advised to strengthen leadership quality through targeted leadership development programs that emphasize effective communication, decision-making, and motivational skills. In addition, the company should evaluate and refine its compensation system by aligning incentives more transparently with production targets, work quality, and employee discipline. Enhancing supporting work facilities is also recommended to improve comfort, safety, and operational efficiency. Given the mediating role of motivation, management should further implement policies that foster both intrinsic and extrinsic motivation, such as continuous training, clear career pathways, and recognition systems, in order to sustain high employee performance.

Future studies are encouraged to expand this research model by incorporating additional variables such as work environment, job satisfaction, employee engagement, or individual competence, which may provide a more comprehensive explanation of employee performance. Moreover, employing longitudinal research designs or mixed-method approaches could offer deeper insights into the dynamic and long-term effects of leadership, compensation, and motivation. Replicating this study in different industrial sectors or organizational contexts is also recommended to enhance the generalizability and robustness of the research findings.

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