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## Leadership Style, Employee Engagement, and Work Environment to Employee Performance in Manufacturing Companies

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### Abstract

The fast changes in global order have to be anticipated by the company's management in order to be able to compete. This change affects the organizational system and the company's leadership style to improve their employees' participation. Leadership style determines the level of employees' participation and empowers them in reaching the targets that have been determined by the management. The data retrieval is using a questionnaire from the employees of an animal feed manufacturing company. The data retrieval technique is by using all the 50 employees of the company. The data analysis of this study is using partial least square (PLS). The result of this study is to find that leadership style has a significant influence on employee engagement and work environment. Employee engagement and work environment impact significantly toward the performance of the employees. The result of the study also shows that leadership style can not directly impact the performance of the employees, because leadership style is an interaction between top management with the employees so that it needs an intermediate variable in increasing the performance of employees.

**Key words:** Company's management / employees' participation / employee empowerment / organizational system

# Leadership Style, Employee Engagement, and Work Environment to Employee Performance in Manufacturing Companies

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**Abstract.** The fast changes in global order have to be anticipated by the company's management in order to be able to compete. This change affects the organizational system and the company's leadership style to improve their employees' participation. Leadership style determines the level of employees' participation and empowers them in reaching the targets that have been determined by the management. The data retrieval is using a questionnaire from the employees of an animal feed manufacturing company. The data retrieval technique is by using all the 50 employees of the company. The data analysis of this study is using partial least square (PLS). The result of this study is to find that leadership style has a significant influence on employee engagement and work environment. Employee engagement and work environment impact significantly toward the performance of the employees. The result of the study also shows that leadership style can not directly impact the performance of the employees, because leadership style is an interaction between top management with the employees so that it needs an intermediate variable in increasing the performance of employees.

**Keywords:** Company's management, employees' participation, employee empowerment, organizational system.

## 1 Introduction

Managing human resources with good leadership and work environment will result in good human resource performance. Leadership is a process of social influence on how a leader seeks and organizes the participation of subordinates to achieve the organizational goals [1]. Organizations need an effective leader who is able to understand the complexity of the changing world environment. Organizations that manage human resources well will

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contribute effectively to employee performance and vice versa, employees must contribute to the company. Companies have to build employee involvement in order to grow their business.

Employee involvement is important for the company in achieving the goals set through the company's mission, and employees are able to understand what must be done to improve the company's competitiveness [2]. All components in the company have to provide a good work environment with the right job placement so that the employees feel attached to the work environment [3]. The condition of the work environment has an important role for the employees because it is one of the determining factors whether employees still want to work in the organization. Employee engagement as a rational and emotional connection felt by employees to the organization and directly influences employee contributions to the organization [4]. Work environment is very helpful in increasing employee performance levels [5]. Factors such as supervisor support, good relations with colleagues, training, and development, attractive and fast incentives and adequate workload recognition and workload plans are very helpful in developing work environments that have a positive impact on the level of employee productivity in the organization. Supportive work environment ensures employee comfort and creates positive energy for performance and engagement [6]. Support given by leaders, coworkers, and organizations has a positive impact on employee perspectives in the work environment [7]. Strong relationship between employee engagement and employee performance [8]. Fulfilling these supporting factors, such as work environment, leadership, team and co-worker, training and career development, compensation, organizational policies, and workplace well-being, will increase employee engagement and will directly affect positively on employee performance.

The nature of individual leadership and organizational concepts in the work environment are needed for organizational development [9]. Every culture has differences and demands different leadership styles and skills to maximize the effectiveness and efficiency of the work environment. Leadership style helps in creating and maintaining organizational and individual capabilities to the maximum. Leadership style is an "art" to influence employees to work optimally in achieving the goals of the organization [10]. Effective leadership style is a top priority for every organization to have high employee engagement [11]. Transactional leadership, which consists of contingent rewards, active management-by-exception, and passive management-by-exception is considered to have a weak relationship because employees tend to avoid leaders who usually intervene if new problems occur [12].

## **2 Literature review**

### **2.1 Leadership Style**

Leadership is a process of social influence in which leaders seek and organize followers' participation in order to achieve organizational goals. Leaders are people who delegate or influence others to act on the goals that have been determined [10]. Leadership style is a pattern related to managerial behavior that is designed to integrate organizational and personal interests to achieve certain goals [8]. leadership style is divided into two types, namely transactional leadership and transformational leadership.

Transactional leadership is the leadership that is more dependent on the "trade" between leaders and followers in which the followers are compensated after achieving certain performance, goals, or criteria [13]. Transactional leadership validates the relationship between performance and reward, which trades with an appropriate response to encourage subordinates to improve performance. Transactional leadership is also known as managerial

leadership that focuses on supervision, organization, and group performance [14]. Transactional leadership is a style of leadership in which leaders promote the adherence of followers through rewards and punishment. Meanwhile, transformational leadership is a leadership style that focuses on the development and needs of followers or employees. Leaders who apply transformational leadership focus on the growth and development of value systems, inspiration levels, and employee morale. The measurement items used for transactional leadership style are: leaders give rewards, leaders give punishment, leaders engage in ongoing employee work, leaders help when difficult problems arise, leaders become role models, leaders provide inspiration, leaders provide motivation, leaders provide support for creativity, leaders pay attention to the needs of subordinates, and leaders value employee contributions to the company [14].

## **2.2 Employee engagement**

Employee engagement is a feeling of an individual or employee that is shown by personal initiation, adaptation, effort, and persistence to achieve organizational goals [9]. Employee engagement can also be interpreted as an emotional or psychological state in which employees have a feeling of ownership of the interests in the success of the organization and perform tasks and work. Employee engagement will be measured using several indicators that refer to Anitha [8], namely leadership, team and co-worker, training and career development, compensation, organizational policies, workplace well-being, and work environment.

## **2.3 Work environment**

The work environment is a broad category that includes physical conditions, job characteristics, organizational features (culture, history), and other aspects of the organization such as local labor market conditions, industry, and household-labor relations. The technical environment refers to equipment, equipment, technological infrastructure, and other physical or technical elements in the workplace [15]. The organizational environment leads to national tasks and environments where the organization draws input, processes, and returns output in the form of goods or services for public consumption. The indicators used are challenging work, supervisor encouragement, work group support, organizational encouragement, sufficient resources, and realistic workload pressure [16].

## **2.4 Employee performance**

Indicates that employee performance is something that shows employee outcomes or work results both financially and non-financially, which are directly related to the company's performance and success [8]. Performance is the result of work both in quality and quantity achieved by employees in carrying out their work in accordance with the given responsibilities. Employee performance is the work that can be achieved by a person or a group of people in an organization, in accordance with their respective rights and responsibilities in an effort to achieve organizational goals. There is a close relationship between individual performance and organizational performance; in other words, if employee performance is good, then the possibility of organizational performance is also good. Employee performance is the work that can be achieved by one or a group of people in an organization, in accordance with the responsibilities and authority of each in an effort to achieve organizational goals [17].

## 2.5 Hypothesis development

Leadership style is found as a significant predictor of employee engagement. In this competitive business world, an effective leadership style is a top priority for every organization to have high employee engagement [11]. Employees who have a positive relationship with the leader will increase employee engagement as well [18]. Leadership styles that focus on building relationships and trust will increase employee engagement [19]. Transactional leadership, which consists of contingent rewards, active management-by-exception, and passive management-by-exception, is stated to have a weak relationship because employees tend to avoid leaders who usually intervene when new problems occur [12]. Transactional leadership has a positive correlation with employee engagement rather than transformational leadership [9].

H: Transactional leadership has a positive effect on employee engagement.

The nature of individual leadership and organizational concepts in the work environment is needed for organizational development. Every culture has differences and demands different leadership styles and skills to maximize the effectiveness and efficiency of the work environment [20]. Leadership style can vary and must be applied differently depending on the community and the existing cultural situation. Leadership characteristics, attributes, and behavior influence in creating a healthy and positive work environment [21].  
H2: Leadership style has a positive effect on the work environment

The work environment is the first factor affecting employee engagement. A work environment or work environment is one of the significant factors that influence employee engagement [8]. Studies conducted by some previous researchers state that employee engagement is the result of various aspects of the work environment. Supportive work environment ensures employee comfort and creates positive energy for performance and engagement [6].

H3: Work environment has a positive effect on employee engagement.

There is a strong influence between employee engagement and employee performance [8]. The fulfillment of supporting factors such as work environment, leadership, team and co-worker, training and career development, compensation, organizational policies, and workplace well-being will increase employee engagement and will directly affect positively on employee performance. Thus, organizations and employees will get a mutualism relationship. Employee engagement as a rational and emotional connection felt by employees to the organization and directly influences employee contributions to the organization [4].

H4: Employee engagement has a positive effect on employee performance.

The work environment is very helpful in increasing employee performance levels [22]. Factors such as supervisor support, good relations with colleagues, training, and development, attractive and fast incentives, adequate workload recognition, and workload plans are very helpful in developing work environments that have a positive impact on the level of employee productivity in the organization. Conductive work environment is one of the priorities that support employees in doing their jobs. Businesses that ignore the work environment in the organization adversely affect employee performance [5].

H5: Work environment has a positive effect on employee performance.

Leadership style has a positive impact on organizational or employee performance [23]. Leadership style helps in creating and maintaining organizational and individual capabilities to the maximum. Leadership style is an "art" to influence employees to work optimally in achieving the goals of the organization [10].

H6: Leadership style has a positive effect on employee performance.

### **3 Research method**

Quantitative research can be interpreted as a research method based on the philosophy of positivism, used to examine specific populations or samples, the sampling techniques generally conducted randomly, data collection using instruments research, data analysis using statistical analysis with the aim to test the hypothesis that has been set [24]. This study wants to test the effect of transactional leadership on employee performance through employee engagement and work environment using a quantitative research method because this study aims to test the hypotheses that have been set. This research conducts data collection and analysis using statistics and figures. in order to get the results of tested generalizations and find out the influence of independent variables, namely transactional leadership on the dependent variable, namely employee performance through intervening variables, namely employee engagement and work environment.

The population is a generalization area that consists of objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then conclusions are drawn. The sample in this study are employees with as many as 50 people at the staff up to level, and all employees are given a questionnaire with the approval of the company leadership. The data analysis technique used is the Partial Least Square (PLS), which is a variance-based structural equation analysis (SEM) that can simultaneously perform structural model testing and is a part, as well as an alternative to SEM. The evaluation of the PLS model is done by evaluating the outer model and the inner model. The outer model defines how each indicator block relates to its latent variable. While the inner model describes the relationship between latent variables based on substantive theory [25].

### **4 The result and the discussion**

Characteristics of respondents by sex are shown as follows: male respondents are 24 respondents (48 %), female respondents are 21 respondents (42 %), and some five (10 %) respondents do not reveal their sex. The almost equal number of male and female respondents shows that companies pay attention to gender equality in the work environment. Characteristics of respondents based on length of their stay in the company are reflected as follows: the numbers of respondents working in the company for 1 yr to 3 yr are eight respondents (16 %), the numbers of respondents working in the company for 4 yr to 6 yr are 23 respondents (46 %), the numbers of respondents working in the company for 7 yr to 9 yr are 16 respondents (32 %), the number of respondents working in the company for more than 9 yr is one respondent (2 %), and the numbers of respondents who do not reveal their working period are two peoples (4 %).

In the first stage of the analysis, it is found that there are some items that have their loading factor weighting values below 0.5. As such, the process found is invalid so some items must be removed. Items that are deleted from the leadership style variable include; LS02 with the statement of the leader or superior giving punishment (punishment) for the work that does not reach the standard; LS03 with statement of leader or supervisor intervening the ongoing work; LS04 with statement of leader or superior interfering the work only when problems arise. Items on the employee engagement variable that are

deleted include: EE04 with a statement of employees working well because of trusting their colleagues; EE05 with the statement of coworkers supporting the work process; EE10 with the statement of feeling the company having flexible working time and hours; EE11 with the statement of the company having fair rules; EE12 with the statement of obeying regulations in the company voluntarily without coercion.

Items in the work environment variable that are deleted include: WE02 with a statement of being able to accomplish the task given; WE08 with a statement of implementing the corporate culture well; WE09 with a statement of satisfaction with the availability of company facilities; WE10 with a statement of satisfaction with the company's information system; and WE11 with a statement of comfort in the work environment. After this removal, the second stage processing is carried out to yield all indicators that meet the requirements of above 0.5.

**Table 1.** Cross loading value per measured items

<b>Variable</b>	<b>Item Measurement</b>		<b>LS</b>
Employee Engagement (EE)	EE 01	The leader inspires you	0.824
	EE 02	The leader can communicate well	0.705
	EE 03	The leader gives encouragement	0.800
	EE 06	You have a good relationship with other coworkers	0.516
	EE 07	You have opportunities from the company to build your career	0.618
	EE 08	The salary satisfies you	0.701
	EE 09	The company gives reward to those who perform well	0.676
	EE 13	The company provides flexible working hours	0.749
	EE 14	You get good welfare	0.641
Employee Performance	EP 01	The company set targets for the employees	0.561
	EP 02	The employees can reach the targets	0.599
	EP 03	The employees can accomplish the tasks as their responsibility	0.726
	EP 04	The employees can finish their tasks accurately	0.792
	EP 05	The employees surrender good quality jobs	0.706
	EP 06	The employees do the rechecking on their tasks	0.810
	EP 07	The employees ensure the tasks according to the standard	0.708
	EP 12	The employees can cooperate with other coworkers	0.529
	EP 13	The employees can communicate well with others	0.650
Leadership Style	LS 01	The leader praises the subordinates	0.735
	LS 05	The leader gives examples to the subordinates	0.595
	LS 06	The leader inspires	0.893
	LS 07	The leader motivates	0.854
	LS 08	The leader promotes work motivation	0.788
	LS 09	The leader pays attention to the employee needs	0.862
	LS 10	The leader appreciate each contribution from employees	0.771
Work Environment	WE 01	The employees are satisfied with the job challenges	0.661
	WE 03	The supervisor gives encouragement to work	0.719
	WE 04	The supervisor sets a good example	0.716
	WE 05	The supervisor is satisfied with his capability	0.649
	WE 06	The supervisor can communicate with others well	0.654
	WE 07	The supervisor shows commitment with other coworkers	0.820

The second stage of data analysis is by calculating the composite reliability, which shows the degree indicating the common latent. The value of the composite reliability must be more than 0.7 so that a variable can be said to be reliable. The results of the composite

reliability value of each variable are: leadership style is 0.920; employee engagement obtains 0.894; the work environment gets 0.855, and employee performance is 0.885. Hypothesis testing in this study is carried out by testing the inner model of the exogenous latent variables to endogenous and endogenous latent variables to endogenous. The results are shown in Table 2.

**Table 2.** The result of Inner Weight on PLS Output

	<b>Original sample estimate</b>	<b>Mean of subsamples</b>	<b>Standard deviation</b>	<b>T-Statistic</b>
LS -> EE	0.761	0.757	0.070	10.835
WE -> EE	0.180	0.189	0.083	2.158
LS -> WE	0.708	0.721	0.065	10.917
LS -> EP	-0.209	-0.255	0.250	1.236
EE -> EP	0.632	0.602	0.276	2.294
WE -> EP	0.293	0.279	0.143	2.050

Leadership style on employee engagement is found to have a gamma coefficient of 0.761 and a t-statistic of 10.835, which is higher than 1.96. Thus, there is a positive influence between leadership style and employee engagement. The result answers the first hypothesis (H1) that leadership style having a positive effect on employee engagement can be accepted. Leadership style in the work environment is found to have a gamma coefficient of 0.780 and a t-statistic of 10.917, which is higher than 1.96. Thus, there is a positive influence between leadership style on the work environment. The result answers the second hypothesis (H2) that leadership style has a positive effect on the work environment can be accepted. The work environment for employee engagement is found to have a gamma coefficient of 0.180 and a t-statistic of 2.158, higher than 1.65. Thus, there is a positive influence in the work environment on employee engagement. The result answers the third hypothesis (H3) that employee engagement has a positive effect on employee engagement can be accepted. Employee engagement on employee performance is found to have a gamma coefficient of 0.632 and a t-statistic of 2.229, which is higher than 1.96. Thus, there is a positive influence on employee engagement on employee performance. The result answers the fourth hypothesis (H4) that employee engagement has a positive effect on employee performance can be accepted. The work environment on employee performance is found to have a gamma coefficient of 0.293 and a t-statistic of 2.050, higher than 1.96. Thus, there is a positive influence in the work environment on employee performance. The result answers the fifth hypothesis (H5) that the work environment having a positive effect on employee performance can be accepted. Leadership style on employee performance is found to have a gamma coefficient of -0.209 and a t-statistic of 1.236, lower than 1.65 ( $\alpha = 10\%$ ). Therefore, there is no influence between leadership style on employee performance. This is because the leader provides inspiration and the leader pays attention to the needs of employees but is unable to provide awareness for employees to re-check the tasks given and has not been able to ensure that employees are able to do the job appropriately.

## 5 Conclusion

Based on the results of the analysis and the discussion, it can conclude that leadership styles influence employee engagement. The proper leadership style implemented in the company will further increase employee engagement in the company. Leadership style can improve the employee work environment. Leadership style is able to condition and build a positive work environment for employees. The work environment has an impact on increasing employee engagement. So, the more conducive and positive work environment, it increases employee attachment to the company. Employee engagement and work environment affect employee performance. Thus, the higher the sense of employee



engagement and the more conducive work environment in the company, the higher employee productivity, and performance. Leadership style does not directly affect employee performance. Therefore, leadership is not directly able to influence employee performance, but through other factors, such as employee engagement and work environment, it can improve the performance of company employees.

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