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Examining the Effect of Leadership, Communication and Compensation on Employee Loyalty: A Case Study of Indonesia Civil Servant

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Abstract

The contemporary business environment has become increasingly sophisticated, partly driven by advancements in science and technology. These developments foster innovation, leading to discoveries and solutions that streamline and enhance business operations. Integrating cutting-edge technologies and scientific knowledge enables companies to improve efficiency, optimise processes, and respond more effectively to dynamic market demands. Thus, this study examines the effect of leadership, communication and compensation on employee loyalty among Indonesian civil servants. This cross-sectional study is carried out using questionnaires. A total of 389 Indonesian civil servants participated in this study, and the data analyses were done using multiple linear regression by assisting SPSS-23. This study found that leadership and compensation do not significantly affect employee loyalty, while communication significantly affects employee loyalty. This study concludes that communication is critical and has important policy implications for organisations that foster loyalty and retain talent.



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1. Introduction

Today's business world has grown more advanced. Various factors, including the development of science and technology, support this progress. The development of increasingly advanced science and technology makes various innovations or discoveries emerge that can simplify and expedite the company's business activities. Developments that occur have an impact on companies, both companies engaged in services and companies engaged in non-services. It has resulted in increasingly fierce competition among business actors in these fields. To survive and continue their business, companies must improve themselves and consider all aspects of the company's operations.

According to Mittal and Lassar (1998), loyalty is a tendency of employees not to move to another company because loyalty can affect employees' comfort in working for a company. Seeing the current situation and conditions, companies continue to improve and improve themselves to adapt to existing developments. Human resources are considered an important resource for the organisation, because without quality human resources, the organisation will not survive in the competition. Good human resources will encourage the company to progress and develop. Advanced and sophisticated equipment the company owns will not be useful if good human resources do not support it. Managing human resources in an organisation/company is difficult because it involves various elements, namely employees, leaders, and system.

According to Setiadi (2016), A good leader must be seen as having a special role or process of giving effect. Leadership style influences employees and the company. In an organisation, whether it is a business organisation or a non-business organisation, leadership is an important factor that determines the continuity or sustainability of the organisation. A leader will be able to adapt to the situation. The leadership style applied will be adjusted to the needs, situations and conditions that occur within the company.

Employee performance is another essential thing that needs to be taken seriously by the wholesaler's sub-district office to increase productivity. Employee performance influences office productivity. In practice, many sub-district offices are less able to compete with other regional sub-district offices due to low employee performance.

2. Literature Review

2.1. Leadership

According to Setiadi (2016), A good leader must be seen as a special role or process of giving influence. The deliberate process of a person emphasising their strong influence on others to guide, structure, and facilitate activities and relationships within a group or organisation. McCauley et al. (2006) found that a leader must mature towards his agency or organisation when implementing his leadership. Leadership is divided into five dimensions: ability to foster good cooperation and relationships, effective ability, participatory leadership, ability to delegate tasks or time, and ability to delegate tasks or authority.

2.2. Communication

According to Berelson and Steiner (1964), communication is transmitting information, ideas, emotions, skills, and so on by using symbols, words, pictures, figures, graphics, and so on. A process that transmits messages to recipients of messages through various media carried out by communicators is an act of communication. Terminologically, communication means delivering a statement by one person to another. From this understanding, communication involves several people, and one person states something to another.

2.3. Compensation

According to Armanu and Sudjatno (2017), compensation is all income in the form of money goods directly or indirectly received by employees as compensation for services provided to the company. An effective compensation system is essential in human resource management because it helps attract and retain talented jobs. According to Soomro et al. (2021),

compensation aims to obtain qualified personnel, retain current employees, ensure fairness, respect the desired behaviour, control costs, and comply with legal regulations.

2.4. Employee Loyalty

According to Mittal and Lassar (1998), loyalty is a tendency of employees not to move to another company because loyalty can affect employees' comfort in working for a company. Employees' loyalty to an organisation is necessary for the organisation's success. Vice versa, for organisations with low employee loyalty, the more difficult it is for the organisation to achieve organisational goals that the owners of the organisation have previously set. Currently, employees' loyalty is not just carrying out their duties and obligations as employees with their job descriptions or job descriptions but doing their best to produce the best from the organisation.

3. Materials and Methods

This cross-sectional study is carried out using questionnaires. The questionnaire is several questions or written statements about factual data or opinions related to respondents, which are facts or truths that are known and need to be answered by respondents. An interview is a data collection technique if the researcher wants to conduct a preliminary study to find the problem to be investigated, but also if the researcher wants to know things from the respondent more deeply. According to Crowther and Lancaster (2012), a literature study is a data collection technique that involves studying books, literature, notes, and reports related to the problem being solved. The data analysis method uses statistical software, namely SPSS-23, to test the predetermined hypothesis and whether it can be accepted or rejected.

4. Results and Discussion

The data were analysed using the classical assumption test to get good results. After the classical assumption test was carried out, the data were analysed using multiple linear regression analysis techniques and performed hypothesis testing.

4.1 Classic Assumption

The classical assumption will be tested first before the hypothesis is tested in this study. The classical assumption test consists of normality, multicollinearity, and heteroscedasticity tests.

4.1.1. Normality Test

The normality test aims to test whether the confounding or residual variables have a normal distribution in the regression model (Black and Babin,

2019). Testing the normality of the data can be done using two methods: graphs and statistics.

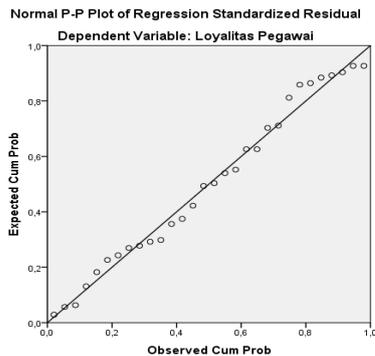


Figure 1. Normal P-Plot

Figure 1 shows the data is normally distributed will form a straight diagonal line and plotting the residual data will be compared with a diagonal line. If the distribution of residual data is normal, the line that describes the actual data will follow the diagonal line (Black and Babin, 2019).

4.1.2. Multicollinearity Test

The multicollinearity test aims to determine whether there is a correlation between the independent variables in the regression model (Senaviratna and Cooray, 2019). According to Thompson et al. (2017), the multicollinearity test in this study is seen from the tolerance value or variance inflation factor (VIF).

Table 1. Result of Multicollinearity Testing

| | Collinearity Statistics | |
|---------------|-------------------------|-------|
| | Tolerance | VIF |
| Leadership | 0.900 | 1.111 |
| Communication | 0.914 | 1.094 |
| Compensation | 0.937 | 1.067 |

a. Dependent Variable: Employee loyalty

Table 1 shows that the tolerance value of the leadership is 0.900, the communication is 0.914, and compensation is 0.937, all of which are greater than 0.10, while the VIF value of the Leadership Variable (X1) is 1.111. Communication Variable (X2) is 1.094, and Compensation (X3) is 1.067, all smaller than 10. Thus, the tolerance value of all independent variables is greater than 0.10, and the VIF value of all independent variables is also higher. VIF is smaller than 10, so there

Table 2. Result of Multiple Linear Regression

| | Unstandardised Coefficients | | Standardised Coefficients | | t | Sig. |
|---------------|-----------------------------|------------|---------------------------|--|-------|-------|
| | B | Std. Error | Beta | | | |
| (Constant) | 11,939 | 3.200 | | | 3.730 | 0.001 |
| Leadership | 0.171 | 0.152 | -0.186 | | 1.127 | 0.270 |
| Communication | 0.547 | 0.144 | 0.622 | | 3.793 | 0.001 |
| Compensation | 0.118 | 0.138 | -0.138 | | 0.851 | 0.403 |

a. Dependent Variable: Employee Loyalty

is no correlation symptom in the independent variable. So, it can be concluded that there is no symptom of multicollinearity between independent variables in the regression model.

4.1.3. Heteroscedasticity Test

The heteroscedasticity test aims to test whether, from the regression model, there is an inequality of variance from the residuals of one observation to another observation (Harrison and McCabe, 1979). A good regression model is the one with homoscedasticity or the absence of heteroscedasticity. One way to detect the presence or absence of heteroscedasticity is by using a scatterplot (Kaufman, 2013). Based on the results of data processing, the heteroscedasticity test in this study is shown in Figure 2 below:

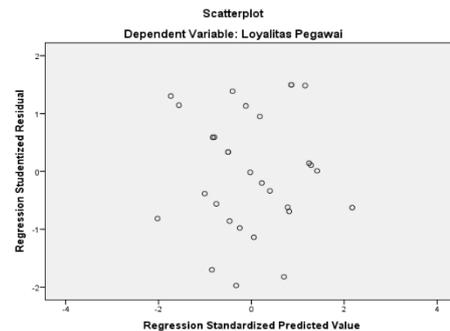


Figure 2. Scatterplot

Figure 2 displays the data pattern perfectly distributed; some are above zero point, and some are spread below the zero point. Because of this, it can be concluded that there are no symptoms of heteroscedasticity in the regression model.

4.2. Multiple Linear Regression Analysis

Multiple linear regression testing explains the role of leadership, communication, and compensation's role in employee loyalty. Data analysis in this study used multiple linear regression analysis using SPSS-23. The analysis of each variable is described in the following description:

Table 2 shows the multiple linear regression equation has the formulation: $Y = a + b_1X_1 + b_2X_2 + e$, so that the equation is obtained: $Y = 11.939 + 0.171X_1 + 0.547X_2 + 0.118X_3$

4.3. Hypothesis Testing

The t-statistic test is also known as the individual significance test. This test shows how partially the influence of the independent variable is on the dependent variable. Table 2 shows the t-stat is 1,127. With = 5%, t-table (5%; 30-3=27), the t-table is 2.052. From the description, it can be seen that t-stat (1,127) < t-table (2,052), as well as the value the significance is 0,270 < 0.05, we can conclude that the first hypothesis is rejected, meaning that the leadership has no significant effect on the employee loyalty.

Also, the t-stat is 3.793 with = 5%, and the t-table (5%; 30-3 = 27) obtained a t-table value of 2.052. we concluded that the second hypothesis is accepted, meaning communication significantly affects employee loyalty. Then, t-stat is 0.851 with = 5%, t-table (5%; 30-3 = 27) obtained a t-table is 2.052 From the description, it can be seen that t-stat (0.851) < t-table (2.052), and the significance value is 0.403 < 0.05, we be concluded that it is concluded that the third hypothesis is rejected, meaning that compensation has no significant effect on the employee loyalty.

Table 3. Result of Simultaneous Test (F-stat)

| | Sum of Squares | df | Mean Square | F | Sig. |
|------------|----------------|----|-------------|-------|-------|
| Regression | 13,310 | 3 | 4,437 | 4.876 | 0.008 |
| Residual | 23,657 | 26 | 0.910 | | |
| Total | 36,967 | 29 | | | |

a. Dependent Variable: Employee Loyalty
 b. Predictors: (Constant), Leadership, Communication, Compensation.

Table 3 shows the F-stat is 36.515 with = 5%, df of numerator: 3, df of denominator: 30-3-1 (5%; 2; 26) the value of F-table is 3.35. From this description F-stat (4.876) > F-table (3, 35), and a significance value of 0.008 < 0.05, we concluded that the third hypothesis is accepted, meaning that leadership, communication, and compensation have a significant effect simultaneously on employee loyalty. The value used to see the coefficient of determination in this study is in the adjusted R square column. This is because the adjusted R square value is not susceptible to adding independent variables. The value of the coefficient of determination can be seen in Table 4:

Table 4. Result of Coefficient of Determination

| Model Summary | |
|----------------------------|---------|
| R | 0.600a |
| R Square | 0.360 |
| Adjusted R Square | 0.286 |
| Std. Error of the Estimate | 0.95388 |

| Model Summary | | |
|-------------------|-----------------|-------|
| | R Square Change | 0.360 |
| | F Change | 4.876 |
| Change Statistics | df1 | 3 |
| | df2 | 26 |
| | Sig. F Change | 0.008 |

a. Predictors: (Constant), Leadership, Communication, Compensation.
 b. Dependent Variable: Employee Loyalty

Table 4 indicates that the adjusted R square value is 0.286 or 28.6%. It shows that the Leadership Variable (X1), Communication Variable (X2) and Compensation Variable (X3) can explain Employee Loyalty Variable (Y) of 28.6 %, the remaining 71.4% (100% - 28.6%) is explained by other variables outside this research model.

5. Conclusions

This study concludes leadership and compensation do not significantly affect employee loyalty. At the same time, communication plays a critical role and has important policy implications for organisations aiming to foster loyalty and retain talent. First, organisations should shift their focus from traditional methods like financial compensation and hierarchical leadership structures to enhancing communication channels within the workplace. It suggests that creating open, transparent, and effective communication frameworks can better foster employee commitment. Policies could include regular feedback mechanisms, transparent decision-making processes, and ensuring employees feel heard and valued at all levels. Also, leadership development programs should focus less on authoritative leadership and more on fostering communicative and participatory leadership styles. Additionally, compensation strategies might need to emphasise non-monetary rewards that improve employee engagement, such as recognition, work-life balance, and professional development, since financial rewards alone do not significantly drive loyalty. Prioritising communication as a core part of workplace culture could lead to more loyal, engaged employees, ultimately enhancing organisational performance.

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