

The Influence of Leadership Style and Compensation on Employee Engagement and Turnover Intention in Indonesian Textile Company

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Abstract

The focus of this research is to analyze and determine the influence of leadership style and compensation on employee engagement and *turnover intention* at CV XYZ, a small and medium-sized textile organization operating in Indonesia. The background and importance of conducting this research stem from the organization's annual turnover intention rate of 21.05 percent, which is mainly related to compensation and leadership. Employing a sequential explanatory research design that combines qualitative and quantitative methods, this study involves 32 employees and interviews with nine respondents. The findings clearly show that transformational and transactional leadership styles have a positive relationship with employee engagement and a negative relationship with employee *turnover intention*. However, laissez-faire leadership style has a negative relationship with employee engagement and a positive relationship with employee *turnover intention*. Fair and transparent compensation practices have a significant impact on motivation and engagement and serve as an important determinant of employee *turnover intention*. Qualitative findings support these results and highlight contradictions in leadership styles across divisions, as well as perceptions related to workload and rewards. This research adds value to the existing literature by illustrating understandings in the textile industry regarding the relationships among leadership, compensation, and employee engagement. It recommends developing leadership relationships, implementing fairness-based compensation, and creating employee engagement programs.

Keywords: leadership style, turnover intent rate, textile industry, fair compensation, workload

Introduction

The manufacturing industry currently faces a variety of challenges, including increasingly depressed margins. A report by Grant Thornton (2025) illustrates that the consumer goods sub-sector in Australia has lower margins than the industry average, and with the ever-increasing cost of living and heightened price competition, this trend is likely to continue (Grant Thornton, 2025). Additionally, products have shorter life cycles, which means manufacturers must adapt faster to market changes. According to a report from Skills Vista (2025), this translates into a need for more adaptive employees with greater expertise to handle these shorter manufacturing cycles (Skills Vista, 2025). In contrast, the manufacturing sector is experiencing a shortage of semi-skilled workers. According to the National Association of Manufacturers (2025), although 3.8 million job openings will emerge by 2033, nearly half may go unfilled due to the inability to find workers with the necessary skills.

In this context, the human resource (HR) system is no longer a behind-the-scenes issue but rather a major driver of productivity and quality at the forefront (Xu & Cooper-Thomas, 2011). The clear lesson across environments is that frontline leadership—which sets direction, provides guidance, and recognizes effort—along with a system of rewards perceived as fair and transparent, creates daily "work resources" that engage workers and motivate them to contribute more than they receive from their work (Li et al., 2021; Gerhart & Rynes, 2003). In other words, leadership styles and compensation design are fundamental operational levers for engagement; when the two function synergistically, dissatisfaction and resignation intentions do not necessarily occur, even in stressful factory conditions (Xu & Cooper-Thomas, 2011).

Indonesia's apparel and textile manufacturing sector is time-based according to delivery schedules, placing significant emphasis on well-motivated production workers. Local empirical observations of manufacturing companies show that leaders' behaviors influence direct work culture and employees' willingness to provide discretionary efforts, with employee engagement operating as an important mediator for performance (Ariussanto *et al.*, 2020). The Indonesian study further established that compensation practices—best understood in terms of fairness and clarity—are associated with higher commitment and decreased turnover intention.

These findings suggest that compensation works effectively when employees can see the standard, timeline, and predictability of incentives (Purnamasari & Netra, 2020). This trend aligns with broader studies of compensation; regardless of remuneration size, reward management (structure, communication, and fairness signals) makes a strong contribution to cooperation, coordination, and motivation in the long run (Gerhart & Rynes, 2003). In simple terms, in the fast-paced Indonesian garment market, coordination between competent supervisors and credible rewards keeps output and quality consistent.

Although leadership and compensation are alternatives, in practical terms, the two coexist. Across countries, evidence suggests that quality leadership styles (transformational, empowering, moral) consistently result in higher commitment, while avoidant or inconsistent leadership destroys it (Li *et al.*, 2021). Enterprise-level research also found that open rewards and instant performance feedback reinforce those leadership effects by fostering trust and psychological safety—the exact conditions that capable leaders aim to create (Awasthi *et al.*, 2025; Gerhart & Rynes, 2003). In cases of agglomerated production windows, this "leadership and rewards" advantage determines the margin between teams that absorb demand spikes with minimal rework and teams that falter under pressure (Xu & Cooper-Thomas, 2011).

CV XYZ faces a significant challenge in retaining its employees. Between June 2024 and June 2025, the company experienced a sizable turnover rate of 21.05%, with 8 out of 38 employees resigning. Based on interviews conducted by the HR department with outgoing employees, the main reason for leaving was compensation (5 employees), followed by leadership-related issues (3 employees). Leadership issues in question included excessive workload, poor communication, unclear direction from managers, and limited opportunities for career development and growth. For a team of this size, losing eight members in a twelve-month span creates recurring vacancies, spikes in overtime, and onboarding barriers that weigh on productivity as much as morale.

From a behavioral perspective, this trend aligns with well-established mechanisms. Perceptions of insufficient compensation or transparency—such as unclear criteria for incentives or benefits that do not meet requirements—undermine the perception of fairness and encourage withdrawal cognition, consistent with *The Influence of Leadership Style and Compensation on Employee Engagement and Turnover Intention in Indonesian Textile Company* equity theory (Adams, 1963). Likewise, high job demands (tight schedules, peak loads) combined with insufficient resources (direction, recognition, training) drain energy and commitment, as posited by the Job Demands-Resources (JD-R) model, and are associated with lower engagement and higher turnover intentions (Schaufeli & Bakker, 2004).

Operationally, the risks are multi-dimensional: (1) capacity and delivery risks, where vacancies and learning curve resets increase the likelihood of late orders and rework; (2) quality and safety risks, where overtime fatigue and shifts in task assignments elevate error rates; (3) cost and continuity risks, where recruitment, induction, and early

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tenure management divert managerial time and costs, and tacit knowledge exits with departing employees; (4) cultural and morale risks, where survivor pressures and perceived injustices erode engagement.

Meanwhile, this issue is actionable because the two key levers—leadership style and rewards—are under management's control. Practically, this means: (1) micro-practices of leadership, such as tightening goal and role definitions, establishing a stable rhythm of feedback and recognition, planning "peak load" training to prevent chronic overload, and designing visible pathways for skill development; (2) enhancing fairness and transparency in compensation by benchmarking base salaries against role expectations, codifying incentive eligibility formulas, determining benefits, and defining how performance is rewarded.

The main objective of this study is to examine the relationship between leadership style, compensation, and employee engagement in CV XYZ. More specifically, this study seeks to answer the following research questions: (1) How does leadership style affect employee engagement at CV XYZ? (2) How do compensation practices affect employee engagement at CV XYZ? (3) How does employee engagement affect turnover intention at CV XYZ? (4) Is there a mediating relationship between leadership style, compensation, employee engagement, and turnover intention?

The objectives of this study are: (1) to analyze the influence of leadership style on employee engagement; (2) to assess the impact of compensation practices on employee engagement; (3) to evaluate the relationship between employee engagement and turnover intention; (4) to explore the mediating role of employee engagement in the relationship between leadership style, compensation, and turnover intention.

Research Method

This study used a mixed-method approach with a sequential explanatory design. This approach combines quantitative and qualitative methods to provide a comprehensive understanding of the phenomenon being studied. The quantitative phase involved a structured survey administered to 32 CV XYZ employees to measure the variables of leadership style, compensation, employee engagement, and turnover intention. The instruments used include: (1) Multifactor Leadership Questionnaire (MLQ) to measure leadership style (Bass & Avolio, 1995); (2) Pay Satisfaction Questionnaire (PSQ) to measure compensation satisfaction (Heneman & Schwab, 1985); (3) Utrecht Work Engagement Scale (UWES) to measure employee engagement (Schaufeli & Bakker, 2004); (4) Turnover Intention Scale to measure turnover intention (Mobley, 1982).

Quantitative data were analyzed using Structural Equation Modeling (SEM) with SmartPLS software to test the causal relationships between variables. Validity and reliability tests are carried out to ensure that the research instrument is valid and reliable. The qualitative phase involved in-depth interviews with nine purposively selected respondents, including managers, supervisors, and employees from various divisions. Semi-structured interviews were conducted to explore in-depth perceptions of leadership styles, compensation practices, and factors that influence engagement and turnover intention. Qualitative data were analyzed using thematic analysis (Braun & Clarke, 2006) to identify the main themes that emerged from the interviews.

This research was conducted at CV XYZ, a small and medium-sized textile company located in Indonesia, with a total of 38 employees. The data collection period was carried out for three months. Research ethics procedures are adhered to, including informed consent from all participants and data confidentiality guarantees. The analysis

is carried out in stages, starting with quantitative analysis to identify patterns of relationships between variables, followed by qualitative analysis to provide an in-depth understanding and context of the quantitative findings.

Results and Discussion

Quantitative Analysis

The results of the SEM analysis showed that the research model had a good fit level with the data. The results of the validity test showed that all indicators had a loading factor value above 0.70, which indicates good convergent validity. The Average Variance Extracted (AVE) value for all constructs is above 0.50, indicating adequate discriminant validity. Reliability tests showed Cronbach's Alpha and Composite Reliability values above 0.70 for all constructs, indicating good internal consistency.

Path coefficients analysis showed the following results: (1) Transformational leadership style had a positive and significant influence on employee engagement ($\beta = 0.542$, $p < 0.01$), suggesting that leaders who inspire, motivate, and provide individualized attention can increase employee engagement; (2) Transactional leadership styles have a positive and significant influence on employee engagement ($\beta = 0.318$, $p < 0.05$), suggesting that a clear reward and punishment system also contributes to engagement; (3) Laissez-faire leadership style had a negative and significant influence on employee engagement ($\beta = -0.425$, $p < 0.01$), suggesting that a lack of direction and guidance decreased employee engagement.

Compensation had a positive and significant influence on employee engagement ($\beta = 0.467$, $p < 0.01$), suggesting that fair and transparent compensation practices increase employee engagement. Employee engagement had a negative and significant effect on turnover intent ($\beta = -0.638$, $p < 0.01$), suggesting that more engaged employees had lower turnover intentions. Mediation analysis showed that employee engagement partially mediated the relationship between leadership style and turnover intention, as well as the relationship between compensation and turnover intention. These findings are in line with the Job Demands-Resources (JD-R) model which states that job resources (such as good leadership and fair compensation) increase engagement, which in turn decreases turnover intent (Bakker & Demerouti, 2017).

Table 1 Descriptive Statistics of Research Variables

Variable	Red	Std. Dev	N
Transformational Leadership	3.78	0.82	32
Transactional Leadership	3.52	0.76	32
Laissez-faire Leadership	2.34	0.91	32
Compensation	3.45	0.88	32
Employee Engagement	3.62	0.79	32
Turnover Intent	2.87	0.94	32

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Table 2. Path Coefficients Analysis Results

Relationships	Path Coefficient (β)	P-Value	Remarks
Transformational → Engagement	0.542	0.001	Significant
Transactional → Engagement	0.318	0.028	Significant
Laissez-faire → Engagement	-0.425	0.005	Significant
Compensation → Engagement	0.467	0.002	Significant
Engagement → Turnover Intent	-0.638	0.000	Significant

Qualitative Analysis

The results of in-depth interviews with nine respondents revealed several key themes that supported and enriched the quantitative findings. The first theme relates to transformational leadership styles which are perceived as a key factor in increasing employee motivation and engagement. Respondents stated that leaders who provide a clear vision, inspire, and provide individualized attention make them feel more valued and motivated to contribute. One of the production employees stated: 'When my boss explains my goals and provides support, I feel more motivated to work and achieve the target.' However, there is variation in perceptions of leadership styles between divisions, with some divisions reporting a lack of clear communication and direction from their managers.

The second theme relates to compensation, where respondents emphasize the importance of fairness and transparency in the compensation system. Some employees stated that the lack of clarity in the criteria for providing incentives and bonuses led to feelings of injustice and decreased motivation. One supervisor stated: 'We don't know how bonuses are calculated, sometimes people who work less get the same bonus. This makes us feel unappreciated.' This theme is in line with the Theory of Equity (Adams, 1963) which states that the perception of injustice in compensation can decrease motivation and increase turnover intention.

The third theme relates to workload, where some respondents reported excessive workload especially during peak production periods. Employees state that the lack of resources and support from management during this period leads to stress and burnout which in turn decreases engagement and increases the desire to leave the company. The fourth theme relates to career development opportunities, where many respondents stated that the lack of opportunities to learn and grow makes them feel trapped and do not see a future in the company. These qualitative findings provide a richer context to the quantitative results and point to specific areas that need to be improved by CV XYZ management.

The findings of this study are in line with various theories and previous research on leadership, compensation, and employee engagement. The positive relationship between transformational leadership styles and employee engagement supports research by Bass & Avolio (1994) who stated that transformational leaders can increase intrinsic motivation and employee commitment through inspirational vision, intellectual stimulation, and individualized attention. Research by Judge & Piccolo (2004) also found that transformational leadership has a stronger positive effect on job satisfaction and performance than transactional leadership. In the context of Indonesia's textile industry,

where production pressures are high and profit margins are low, transformational leadership can be a key factor in maintaining employee motivation and engagement.

The positive relationship between transactional leadership and employee engagement, although weaker than transformational, suggests that a clear reward and punishment system is also important in the manufacturing context. Research by Breevaart et al. (2014) found that transactional leadership can improve task performance through clarity of purpose and consistent feedback. However, the negative relationship between laissez-faire leadership and employee engagement is in line with the research of Skogstad et al. (2007) who found that laissez-faire leadership is destructive and can lead to role conflicts, ambiguity, and stress in employees. In the context of CV XYZ, these findings point to the need to develop leadership competencies and avoid passive leadership styles or avoidance of responsibility.

The positive relationship between compensation and employee engagement supports Herzberg's Two-Factor Motivation Theory (1959) which states that compensation is a hygiene factor that can prevent dissatisfaction and, when managed well, can increase job satisfaction. Research by Milkovich et al. (2014) emphasizes that the perception of fairness in compensation is more important than the absolute sum of compensation. In the context of CV XYZ, qualitative findings show that ambiguity and injustice in the compensation system are the main sources of dissatisfaction, in line with the research of Park & Jang (2015) which found that compensation satisfaction has a significant effect on turnover intentions in the hospitality industry.

The mediating role of employee engagement in the relationship between leadership, compensation, and turnover intent supports the Job Demands-Resources (JD-R) model from Bakker & Demerouti (2017). This model states that job resources (such as supportive leadership and fair compensation) increase employee engagement, which in turn lowers strain and turnover intentions. Saks research (2019) also found that employee engagement mediates the relationship between HR practices and organizational outcomes. In the context of CV XYZ, these findings suggest that efforts to reduce turnover should focus not only on improving leadership and compensation, but also on increasing employee engagement through programs that improve job meaning, autonomy, and development opportunities.

This research has important practical implications for the management of CV XYZ and other textile companies in Indonesia. First, the development of transformational leadership competencies through training and coaching can increase engagement and reduce turnover. Second, improving the compensation system by setting clear, transparent, and fair criteria can increase employee satisfaction and motivation. Third, the systematic implementation of employee engagement programs can increase the sense of belonging and employee commitment to the organization. Fourth, better workload management, especially during peak production periods, can prevent burnout and turnover.

Conclusion

This study at CV XYZ, an Indonesian textile company with a 21.05% annual turnover rate, employed a mixed-methods approach (32 survey respondents and 9 interviews) to examine how leadership styles and compensation influence employee engagement and turnover intention. Key findings revealed that transformational and transactional leadership positively impacted engagement, while laissez-faire leadership had a negative effect; fair, transparent compensation also significantly boosted

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engagement, which in turn mediated the relationships between these factors and reduced turnover intentions. Qualitative insights highlighted divisional leadership variations, opaque compensation, excessive workloads, and limited career paths as key turnover drivers, leading to recommendations for transformational leadership training, clearer compensation criteria, engagement programs, workload management, and defined career development to enhance sustainability. For future research, longitudinal studies could track the long-term efficacy of these interventions across multiple Indonesian textile firms, incorporating economic variables like inflation to assess sustained impacts on engagement and turnover.

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