

Transformational Leadership Style on Employee Performance with Employee Engagement as a Mediating Variable in a North Sumatran Pawnshop Company

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Abstract

In the competitive financial services sector, superior employee performance is a critical determinant of organizational success. This is especially true in pawnbroking, where performance hinges on customer trust and efficient service. Transformational leadership plays a crucial role in driving performance but how exactly it impacts remains unclear. Employee engagement is believed to be the key factor that links leadership to performance outcomes. Hence, this research seeks to identify the correlation between transformational leadership demeanor and personnel efficacy, with employee engagement serving as an intervening construct at PT Budi Gadai Indonesia, Medan Branch. Adopting a quantitative paradigm, the investigation encompasses a population of 185 personnel, employing a saturated sampling technique. Data evaluation was performed through Structural Equation Modeling (SEM) predicated on Partial Least Squares (PLS) methodology via SmartPLS. The empirical findings revealed that transformational leadership style exerts a positive and influential upon employee performance ($\beta = 0.485$; $p = 0.000$) as well as upon work engagement ($\beta = 0.361$; $p = 0.000$). Moreover, work engagement has a positive and influential on employee performance ($\beta = 0.511$; $p = 0.000$). The mediational assessment further unveiled that work engagement significantly intermediates the nexus between transformational leadership style and employee performance ($\beta = 0.184$; $p = 0.000$). This research confirms that transformational leadership directly improves employee performance and work engagement, while work engagement also contributes strongly to performance improvement. In addition, work engagement is proven to be a significant mediator that bridges the influence of transformational leadership on employee performance.

Keywords: Employee Engagement, Employee Performance, Pawnshop Company, Transformational Leadership.

1. Introduction

Employees are essentially one of the elements that constitute a company's resources (Rizky & Ardian, 2019). Possessing adept human capital capable of contending with that of competing enterprises constitutes one of the pivotal determinants of corporate advancement (Rizky, 2022). Consequently, organizations must devise and implement pertinent stratagems to procure and sustain the continuity of competent human resources within their institutional framework (Rizky, 2022). Advancement can only be actualized when human capital demonstrates commendable performance, encompassing elevated levels of productivity and efficiency (Rizky et al., 2022).

Employee performance is one of the crucial factors that determine an organisation's success in achieving its strategic objectives. Performance, as delineated by Mangkunegara (2017), constitutes the outcome of both the quality and quantity of tasks accomplished by an



employee in executing their duties in alignment with the responsibilities entrusted to them. Similarly, Afandi (2018) elucidates that employee performance refers to the achievements attained by an individual or collective within an organization, commensurate with their respective authority and obligations, in pursuit of organizational objectives. Moreover, performance holds a paramount position within an organization or enterprise, serving as the principal determinant of its overall success (Fachrurazi et al., 2022).

One factor that is thought to influence employee performance is transformational leadership (Harefa & Selviana, 2023). Leadership is one of the functions of management to influence, direct, motivate, and supervise others so that they can carry out planned tasks to achieve the organisation's goals and objectives. A manager's leadership skills will greatly affect the performance of the organisation, especially in terms of achieving organisational goals (Rahman et al., 2023).

Rizky (2022) pointed out that leadership constitutes a deliberate endeavor to attain organizational objectives through the harmonization of followers' needs, thereby ensuring their continuous growth in consonance with the overarching aims of the organization. In leading, character or a leadership style is also needed, which makes it easier to control employees or members of the organisation under them (Muthohar & Achmad, 2024). Every leader has a different leadership style (Angelia & Astiti, 2020). Leadership style encompasses the manner or attitude of an individual in leading and performing their duties, as well as how an individual perceives their leader (Merry & Rizky, 2024). In a transformational leadership style, a leader who makes employees aware can encourage them to prioritise their work and emphasise the organisation so that employees believe in and are motivated to do better work (Bismoko et al., 2023). Transformational leadership is distinguished by four cardinal dimensions: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Many leadership style issues arise because fatal mistakes made by leaders can impact organisational development (Merry & Rizky, 2024).

A mediating construct that has garnered substantial prominence in organizational scholarship is employee engagement. Kahn (1990) delineates employee engagement as a psychological condition wherein individuals are wholly immersed, physically, cognitively, and emotionally, in the execution of their occupational roles. Work engagement arises when employees are committed to performing their jobs as well as possible and feel motivated to do more than what is required of them (Angelia & Astiti, 2020). Engaged employees have enthusiasm for their work and channel it into their efforts, behaviour, and time to achieve high performance (Harefa & Selviana, 2023). Employee engagement plays a strategic role in service industries such as pawnshops, where direct interaction with customers is key to business success. Employees with high levels of engagement tend to be more proactive, innovative, and committed to providing the best service to customers.

PT Budi Gadai Indonesia, as the largest private pawnshop company in North Sumatra Province registered with the Financial Services Authority (OJK), provides loan services with collateral such as gold, jewellery, electronics, and vehicles. It must be able to provide fast, safe, and reliable services with competitive interest rates. Success in providing excellent service is highly dependent on the performance of employees in each branch, including the Medan branch as one of the company's strategic branches. In addition, the pawnshop industry has unique characteristics that distinguish it from other financial service industries, such as the relatively fast nature of transactions, high levels of customer trust, and sensitivity to commodity price fluctuations (especially gold). These characteristics require employees to have a high level of engagement in order to adapt to the fast-paced business dynamics and provide satisfactory services.

Several scholarly investigations have substantiated the mediating function of employee engagement within the nexus between transformational leadership and employee performance. Nugroho (2025) elucidates that transformational leadership enhances employee engagement; however, its consequent influence on performance necessitates further empirical examination. Grounded in this contextual framework, the present study seeks to scrutinize the correlation between transformational leadership style and employee performance, with employee engagement serving as a mediating variable at PT Budi Gadai Indonesia, Medan Branch.

2. Literature Review

2.1. Employee Performance

The term performance originates as an acronym encompassing the concepts of kinetics, energy, and work. In terminological context, performance denotes the tangible manifestation of the tasks executed by employees, which is commonly utilized as a benchmark for evaluating individual contributions within an organization or enterprise (Rahman et al., 2023). Employee performance is essential to achieve good and high achievements. To realise this, various efforts and appropriate methods are required so that all elements related to an organisation do not deviate from the previously established performance (Merry & Rizky, 2024). Mangkunegara (2017) delineates performance as the quality and quantity of outcomes accomplished by an employee in executing assigned duties in alignment with their designated responsibilities. In a similar vein, Afandi (2018) explicates that employee performance constitutes the work attained by an individual or collective within an organization, commensurate with their respective authority and obligations, in pursuit of achieving organizational objectives.

2.2. Employee Engagement

Angelia and Astiti (2020) assert that employees who demonstrate complete involvement and exhibit profound enthusiasm toward their duties, as well as toward the organization's long-term objectives, can be characterized as possessing a high degree of engagement. Robbins and Judge (2013) define work engagement as an individual's sense of involvement, satisfaction, and enthusiasm toward the tasks they perform. Employees exhibiting elevated levels of engagement tend to cultivate a strong sense of belonging, rendering them less inclined to disengage from their work, an outcome that enhances organizational profitability and mitigates turnover challenges. Furthermore, highly engaged employees exhibit meticulous attention to detail and consistently endeavor to deliver optimal contributions to their organization (Angelia & Astiti, 2020). Schaufeli and Bakker (2004) further conceptualize work engagement as a positive, motivational, and work-related psychological state distinguished by vigor, dedication, and absorption.

2.3. Transformational Leadership Style

Leaders play an important role in shaping the future of a company. A leader is considered successful and effective if the company is able to carry out its duties and achieve its objectives in line with the company's goals. Every leader has different leadership styles (Angelia & Astiti, 2020). Leadership style encompasses the way or attitude of a person in leading and carrying out their duties, as well as how a person views the person who leads them (Merry & Rizky, 2024).

The transformational leadership style, popularized by Hamsal (2021), emphasizes articulating a compelling and realistic vision for the organization's future, stimulating subordinates' intellectual capacities, and acknowledging individual differences within the

organizational structure (Muthohar & Achmad, 2024). The concept of transformational leadership originates from the combination of two terms, namely leadership and transformational. The word transformational is derived from to transform, signifying the act of converting or altering something into a new form, such as translating a vision into tangible reality (Nugroho, 2025). According to Jufrizen and Rahmadhani (2020), transformational leadership represents a leadership paradigm that harmonizes and motivates subordinates toward predetermined objectives by delineating roles and task expectations. The implementation of this leadership approach fosters an environment imbued with trust, respect, loyalty, and mutual appreciation between leaders and their subordinates (Bismoko et al., 2023).

3. Methods

This research employs a quantitative methodology to investigate the causal interconnections among transformational leadership, employee engagement, and employee performance. The study population comprises the entire workforce of PT Budi Gadai Indonesia, Medan Branch, totaling approximately 185 individuals, with a saturated sampling technique (census) utilized to ensure comprehensive representation. Data analysis was executed through Structural Equation Modeling (SEM) based on Partial Least Squares (PLS), facilitated by the SmartPLS software, to evaluate both the measurement and structural models.

The analytical procedures encompassed instrument validity and reliability assessments, data normality testing, descriptive statistical analysis, and hypothesis verification via bootstrapping to ascertain the significance of both direct and indirect relationships. Furthermore, mediation analysis was conducted through the Sobel test and indirect effect evaluation to substantiate the mediating role of employee engagement in the association between transformational leadership and employee performance. The level of statistical significance was determined at 5% ($\alpha = 0.05$).

4. Results and Discussion

4.1. Research Results

4.1.1. Evaluation of Measurement Models (Outer Model)

Table 1. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Employee Performance	0,947	0,960	0,959	0,799
Transformational Leadership Style	0,897	0,902	0,917	0,582
Work Engagement	0,922	0,926	0,934	0,587

Source: Processed data, 2025

Based on Table 1, all constructs exhibit Cronbach's Alpha and Composite Reliability coefficients exceeding 0.70, signifying robust internal consistency. Additionally, the Average Variance Extracted (AVE) values for all constructs surpass the threshold of 0.50, indicating that the indicators account for more than 50% of the variance within each construct.

Consequently, all constructs in this study are deemed reliable and fulfill the established criteria for convergent validity.

Table 2. Discriminant Validity-Cross Loading

	Employee Performance	Transformational Leadership Style	Work Engagement
X10	0,424	0,756	0,193
X11	0,597	0,772	0,327
X12	0,522	0,772	0,260
X4	0,510	0,659	0,338
X6	0,409	0,732	0,239
X7	0,486	0,757	0,270
X8	0,492	0,766	0,211
X9	0,582	0,873	0,319
Y2	0,900	0,610	0,606
Y3	0,946	0,646	0,644
Y4	0,923	0,607	0,681
Y5	0,951	0,640	0,650
Y6	0,946	0,610	0,660
Y8	0,658	0,456	0,389
Z1	0,496	0,188	0,749
Z10	0,434	0,342	0,743
Z2	0,452	0,155	0,696
Z3	0,549	0,227	0,707
Z4	0,586	0,405	0,822
Z5	0,529	0,356	0,838
Z6	0,624	0,268	0,790
Z7	0,565	0,220	0,794
Z8	0,529	0,167	0,769
Z9	0,456	0,381	0,742

Source: Processed data, 2025

Based on Table 2, all indicators demonstrate higher loading coefficients on their respective constructs than on any other constructs. This finding indicates that each indicator distinctly represents its intended construct, thereby satisfying the discriminant validity criterion as evidenced by the cross-loading analysis.

4.1.2. Structural Model Evaluation (Inner Model)

Table 3. R Square Results

	R Square	R Square Adjusted
Employee Performance	0,675	0,672
Work Engagement	0,130	0,126

Source: Processed data, 2025

Based on Table 3, the R-Square value for Employee Performance of 0.675 indicates that the independent variable is able to explain 67.5% of the variation in employee performance, while the remaining 32.5% is influenced by other factors outside the model. Meanwhile, the R-Square value for Work Engagement is 0.130, indicating that the independent variable only explains 13% of the variation in work engagement, so its influence is relatively weak.

Table 4. f-Square (f²) Results

	Employee Performance	Transformational Leadership Style	Work Engagement
Employee Performance			
Transformational Leadership Style	0,629		0,150
Work Engagement	0,699		

Source: Processed data, 2025

The F-Square (effect size) in SmartPLS serves as an indicator of the extent to which an independent variable influences a dependent variable, determined by the variation in the R-Square value when the variable is incorporated into or excluded from the model. Conventionally, F² values are interpreted according to the following thresholds: 0.02 (small effect), 0.15 (medium effect), and 0.35 (large effect). Based on Table 4, the F² results reveal that Transformational Leadership Style exerts a substantial influence on Employee Performance (0.629) and a moderate influence on Work Engagement (0.150). Conversely, Work Engagement demonstrates a large effect on Employee Performance, with an F² value of 0.699, signifying that employee engagement contributes markedly to enhancing overall performance levels.

Table 5. Direct Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Transformational Leadership Style → Employee Performance	0,485	0,485	0,044	11,095	0,000
Transformational Leadership Style → Work Engagement	0,361	0,371	0,071	5,050	0,000
Work Engagement → Employee Performance	0,511	0,510	0,037	13,662	0,000

Source: Processed data, 2025

Based on Table 5, the results of the direct effect analysis indicate that all three direct effect hypotheses in this study are statistically significant. Transformational leadership exerts a positive and significant influence on employee performance, with a path coefficient of 0.485 (t-statistic = 11.095; p-value = 0.000), signifying that transformational leadership enhances employee performance by 48.5%. Moreover, transformational leadership demonstrates a positive and significant impact on work engagement, reflected in a path coefficient of 0.361 (t-statistic = 5.050; p-value = 0.000), implying that an improvement in transformational leadership style elevates employee work engagement by 36.1%.

In addition, work engagement exhibits a positive and significant effect on employee performance, with a path coefficient of 0.511 (t-statistic = 13.662; p-value = 0.000)—the most substantial effect in the model, indicating that heightened work engagement enhances employee performance by 51.1%. All t-statistic values exceed the critical threshold of 1.96, and all p-values are below 0.05, confirming the acceptance of all direct effect hypotheses at a 5% significance level. These findings demonstrate that the transformational leadership style not only directly improves employee performance but also indirectly strengthens it through

increased work engagement, thereby significantly contributing to performance enhancement at PT Budi Gadai Indonesia, Medan Branch.

Table 6. Indirect Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Transformational Leadership Style -> Work Engagement -> Employee Performance	0,184	0,189	0,036	5,087	0,000

Source: Processed data, 2025

Based on Table 6, Transformational Leadership Style exerts an indirect influence on Employee Performance through Work Engagement, with a path coefficient of 0.184, a t-statistic value of 5.087, and a p-value of 0.000. These values fulfill the established significance criteria (p-value < 0.05 and t-statistic > 1.96), indicating that Work Engagement significantly mediates the relationship between Transformational Leadership Style and Employee Performance at PT Budi Gadai Indonesia, Medan Branch. This finding implies that the implementation of an effective transformational leadership approach enhances employee engagement, which in turn positively contributes to improved employee performance.

4.2. Discussion

The results of the study indicate that transformational leadership style has a positive and significant effect on the performance of employees at Budi Gadai's Medan branch. This is in line with Bass & Avolio's (1994) theory, which states that transformational leaders are able to inspire, motivate, and provide individual attention, thereby encouraging employees to work beyond expectations. The high coefficient value (0.485) with a p-value of 0.000 indicates that leaders who are able to provide vision, role models, and emotional support have a direct impact on improving work quality, productivity, and employee target achievement. These findings are also consistent with previous studies that prove that transformational leadership style has a significant contribution to individual and team performance.

Further, the analytical results confirm that the transformational leadership style exerts a positive and significant effect on work engagement, with a coefficient value of 0.361. Leaders who embody a transformational approach are capable of cultivating harmonious relationships, presenting meaningful challenges, and fostering a supportive work atmosphere, thereby enabling employees to become emotionally, cognitively, and physically immersed in their roles. Elevated levels of work engagement have been empirically shown to substantially enhance employee performance, as evidenced by this study's findings, where work engagement exhibits an influence coefficient of 0.511 on employee performance.

Beyond its direct impact, the study also reveals that work engagement mediates the relationship between transformational leadership style and employee performance, with an indirect effect coefficient of 0.184 and a p-value of 0.000. This indicates that transformational leadership not only influences performance directly but also indirectly through the enhancement of employee engagement. Leaders who inspire, motivate, and empower their subordinates foster a profound sense of belonging and organizational commitment, which, in turn, drives employees to deliver optimal performance. Consequently, work engagement serves as a pivotal mechanism that reinforces the linkage between transformational leadership and performance outcomes at PT Budi Gadai Indonesia, Medan Branch.

5. Conclusion

The findings of this inquiry ascertain that the transformational leadership paradigm exerts a constructive and momentous influence upon the occupational efficacy of personnel at Budi Gadai's Medan branch. Supervisors endowed with the capacity to impart inspiration, instill motivation, and furnish emotional sustenance have been substantiated to augment productivity and the realization of occupational objectives. Furthermore, the transformational leadership disposition likewise manifests a positive and statistically consequential effect on occupational engagement, wherein leaders who cultivate a collective vision, proffer meaningful challenges, and engender a propitious occupational milieu succeed in amplifying the emotional, cognitive, and corporeal immersion of employees. This investigation likewise corroborates that occupational engagement bears a salutary and significant influence upon employee performance, signifying that elevated engagement levels correspond with enhanced performance. Moreover, occupational engagement is empirically validated as a significant mediating construct in the link between transformational leadership style and employee performance, signifying that the amplification of work engagement constitutes an essential conduit in optimizing the impact of transformational leadership on performance.

Based on the findings, it is recommended that the pawnshop company should focus on training programs for supervisors to improve leadership skills. They should also create a supportive work environment, recognize contributions, and offer growth opportunities to increase employee engagement. Improving leadership and increasing involvement can lead to higher levels of employee productivity within the company. Future research could examine this framework across different sectors and incorporate additional factors such as company culture and employee contentment.

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