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Transformational Leadership and Work Environment on Employee Performance through Job Satisfaction in the Digital Transformation

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Abstract

Rapid digital transformation has increased the need for organizations to effectively manage human resources to sustain employee performance. This study examines the effect of transformational leadership and work environment in enhancing employee performance through job satisfaction as a mediating variable within the context of digital transformation. The research employs a quantitative approach using Partial Least Squares Structural Equation Modeling with data collected from 125 employees in Bandung, West Java. The findings reveal that transformational leadership and work environment have positive and significant effects on job satisfaction and employee performance. Job satisfaction also demonstrates a significant positive influence on employee performance and acts as a partial mediator in the relationships between transformational leadership and employee performance, as well as between work environment and employee performance. These results indicate that effective leadership and a supportive work environment not only directly improve performance but also indirectly enhance it through increased employee satisfaction. From a managerial perspective, the study highlights the importance of integrating human-centered leadership practices and conducive workplace conditions to strengthen organizational performance in the digital era.

Keywords

Digital Transformation, Employee Performance, Job Satisfaction, Transformational Leadership, Work Environment.

1. Introduction

The rapid advancement of digital transformation has fundamentally changed the way organizations operate, communicate, and manage their human resources (Vial, 2021). The adoption of digital technologies, including Artificial Intelligence (AI), automation, and flexible working arrangements, has enabled organizations to improve operational efficiency and business competitiveness (Verhoef et al., 2021). However, these technological developments have also created new managerial challenges, particularly in maintaining employee engagement, job satisfaction, and performance. Despite increasing technological readiness, many organizations continue to struggle to foster positive workplace relationships and ensure that employees remain motivated in increasingly digital work environments. This issue is reflected in the 2025 Work Relationship Index (WRI), which reported that only around 28% of knowledge workers in Indonesia have healthy work relationships, representing a significant decline compared to the previous year (Rendy, 2025). Interestingly, the same report also found that most employees remain optimistic that artificial intelligence can improve both their quality of life and work experience. This phenomenon highlights a managerial paradox in which rapid technological adoption is not necessarily accompanied by improvements in employees' workplace experiences and psychological well-being.

From a human resource management perspective, employee performance is influenced not only by technological capabilities but also by organizational factors that shape employees' work experiences. Among these factors, transformational leadership has been widely recognized as an important driver of employee attitudes and behaviors. Leaders who communicate an inspiring vision, provide individualized consideration, and encourage innovation are better able to increase employee motivation, engagement, and job satisfaction (Choi et al., 2016; Eliyana & Ma'arif, 2019). These positive psychological outcomes subsequently contribute to higher employee performance, enabling organizations to achieve their strategic objectives more effectively (Hilton et al., 2023; Mahmud et al., 2023; Steven & Yanuar, 2024). Therefore, transformational leadership is increasingly viewed as a critical capability for organizations operating in dynamic and technology-driven environments.

In addition to leadership, the work environment represents another essential organizational factor affecting employee performance. A supportive work environment, encompassing both physical and psychosocial dimensions, enables employees to perform their responsibilities effectively while maintaining their well-being (Dumitriu et al., 2025). Previous studies have demonstrated that favorable working conditions, positive social relationships, and organizational support significantly improve employee job satisfaction and productivity, particularly in digital and flexible work settings where collaboration and work-life balance have become increasingly important (García-Salirrosas et al., 2023; Dia, 2024). Consequently, organizations seeking sustainable performance improvement must pay equal attention to creating a healthy and supportive work environment alongside adopting digital technologies.

Job satisfaction plays a central role in explaining how organizational factors translate into employee performance. Employees with higher levels of job satisfaction tend to exhibit stronger commitment, greater motivation, and higher productivity, all of which contribute to superior performance outcomes (Tarigan et al., 2022; Djuli et al., 2023; Latifah et al., 2024). Furthermore, prior studies have identified job satisfaction as an important mediating mechanism linking transformational leadership and the work environment with employee performance (Curado & Santos, 2022; López-Cabarcos et al., 2022; Alwali & Alwali, 2022). These findings suggest that organizational practices influence employee performance not

only directly but also indirectly by improving employees' psychological well-being and positive work attitudes.

However, several research gaps remain. First, most previous studies examined leadership, work environment, and performance variables separately, thus failing to provide a comprehensive picture. Second, studies integrating these variables within the context of digital transformation are limited, despite the potential for changes in digital work patterns to influence the relationships between these variables. Based on this, this study aims to analyze the effect of transformational leadership and the work environment in improving employee performance through job satisfaction in the context of digital transformation. This study uses a Partial Least Squares Structural Equation Modeling (PLS-SEM) approach to examine the direct and indirect relationships between variables. The results are expected to provide theoretical contributions to the development of human resource management literature and practical implications for organizations in designing strategies to improve employee performance in the digital era.

2. Literature Review and Hypothesis Development

2.1. Transformational Leadership, Work Environment, and Job Satisfaction

Transformational leadership plays a crucial role in enhancing employee job satisfaction by creating a work environment that motivates, supports, and empowers employees. According to Eliyana and Ma'arif (2019), transformational leaders provide a clear vision, inspirational motivation, and individualized consideration, enabling employees to become more emotionally engaged in their work. This leadership style also promotes employee empowerment, which subsequently increases job satisfaction (Choi et al., 2016). Furthermore, Hilton et al. (2023) emphasized that the dimensions of transformational leadership, particularly idealized influence and individualized consideration, make significant contributions to improving job satisfaction while simultaneously strengthening organizational performance. Collectively, these findings indicate that effective transformational leadership fosters positive employee attitudes and creates a supportive organizational climate, ultimately leading to higher levels of job satisfaction.

The work environment is another important determinant of employee job satisfaction because it shapes employees' daily experiences in the workplace. A safe, comfortable, and supportive work environment, encompassing physical, social, and psychological aspects, encourages positive perceptions of work and enhances employee well-being (Dia, 2024). In addition, a conducive work environment strengthens employees' sense of trust and comfort, which contributes to greater job satisfaction. As highlighted by Febryan and Kamilia (2025), the work environment not only directly influences employee performance but also indirectly affects it through job satisfaction. This relationship has become increasingly relevant in modern workplaces, where flexible and remote working arrangements require organizations to maintain work-life balance as a key contributor to employee satisfaction (García-Salirrosas et al., 2023). These studies suggest that employees who perceive their work environment as supportive and conducive are more likely to experience higher levels of job satisfaction.

H1: Transformational leadership has a positive effect on job satisfaction.

H2: Work environment has a positive effect on job satisfaction.

2.2. Job Satisfaction, Transformational Leadership, and Performance

Job satisfaction is a key determinant of employee performance because satisfied employees are more motivated, committed, and productive in carrying out their responsibilities (Syailendra, 2023; Rahmaini et al., 2026). Previous studies have

consistently shown that job satisfaction positively influences employee performance, particularly in terms of work quality and punctuality (Latifah et al., 2024). In addition, job satisfaction enhances employee engagement and fosters positive work attitudes, which further contribute to improved performance (Djuli et al., 2023). In this study, employee performance is measured through work quality, work productivity, and punctuality, with work productivity included to ensure consistency with the research instrument. This operationalization is supported by Tarigan et al. (2022), who found that higher job satisfaction, driven by an effective reward system, improves productivity and overall organizational performance. Therefore, higher levels of job satisfaction are expected to lead to better employee performance.

Transformational leadership is an important driver of employee performance by inspiring employees, motivating them to achieve organizational goals, and supporting their individual development. As noted by Dayanti and Nurchayati (2023), transformational leaders encourage employees to go beyond personal interests and contribute more effectively to organizational success. Empirical evidence also demonstrates that transformational leadership positively affects employee performance, both directly and indirectly through positive organizational behaviors such as organizational citizenship behavior (Budur & Demir, 2022). Moreover, transformational leadership enhances employee engagement, which subsequently improves work performance (Jiatong et al., 2022). Curado and Santos (2022) further emphasized that job satisfaction strengthens the relationship between transformational leadership and employee performance by serving as a mediating mechanism. Therefore, more effective transformational leadership is expected to result in higher employee performance.

H3: Job satisfaction has a positive effect on employee performance.

H4: Transformational leadership has a positive effect on employee performance.

2.3. Work Environment and Employee Performance

The work environment is a critical factor influencing employee performance because it shapes the conditions under which employees carry out their daily tasks. A supportive work environment encompasses both physical and non-physical aspects, including adequate facilities, workplace safety, positive interpersonal relationships, and an organizational culture that encourages collaboration and mutual respect (López-Cabarcos et al., 2022; Rismayadi, 2022). These conditions enable employees to perform their responsibilities more effectively by reducing work-related stress, enhancing concentration, and creating a sense of comfort and security (Dewa, 2023). As employees perceive their work environment to be more conducive, they are more likely to demonstrate greater motivation, commitment, and willingness to contribute to organizational objectives. Consequently, organizations that invest in creating a healthy and supportive work environment are better positioned to achieve higher levels of employee performance.

Empirical evidence consistently supports the positive relationship between the work environment and employee performance. Zhenjing et al. (2022) found that a favorable work environment directly improves performance by increasing employee motivation and work efficiency. Likewise, Sutaguna et al. (2023) demonstrated that work environment factors, including discipline, work experience, and organizational support, play an important role in enhancing overall employee performance. In addition, López-Cabarcos et al. (2022) reported that the work environment, together with leadership behavior, serves as a key determinant in explaining variations in employee performance across organizations. These findings suggest that employees who work in a comfortable, supportive, and well-managed environment are more likely to achieve higher levels of work quality, productivity, and punctuality.

Therefore, the more conducive the work environment perceived by employees, the higher the level of performance they are expected to achieve.

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

2.4. Mediating Effect of Job Satisfaction

The mediating role of job satisfaction has become increasingly important in explaining how organizational factors influence employee performance. Job satisfaction functions not only as an outcome of managerial practices but also as a psychological mechanism that translates the effects of leadership and the work environment into improved employee performance (David et al., 2025). Employees who experience higher levels of job satisfaction are more likely to demonstrate greater motivation, commitment, and engagement, which ultimately enhance their work performance.

Previous studies provide consistent evidence supporting this mediating role. Transformational leadership indirectly improves employee performance by fostering positive feelings toward work and increasing job satisfaction (Curado & Santos, 2022; Hilton et al., 2023). Similarly, a supportive work environment enhances job satisfaction, which subsequently contributes to higher employee performance (López-Cabarcos et al., 2022; Rismayadi, 2022). Furthermore, Siyaphat et al. (2024) confirmed that job satisfaction serves as a significant mediator linking organizational factors, particularly transformational leadership and the work environment, to employee performance. This mediating mechanism may become even stronger when psychological factors, such as emotional intelligence and work motivation, reinforce employees' positive work experiences through increased job satisfaction (Alwali & Alwali, 2022; Siswanto et al., 2023). Taken together, these findings highlight job satisfaction as a central mechanism through which organizational practices can effectively improve employee performance.

H6: Job satisfaction mediates the relationship between transformational leadership and employee performance.

H7: Job satisfaction mediates the relationship between the work environment and employee performance.

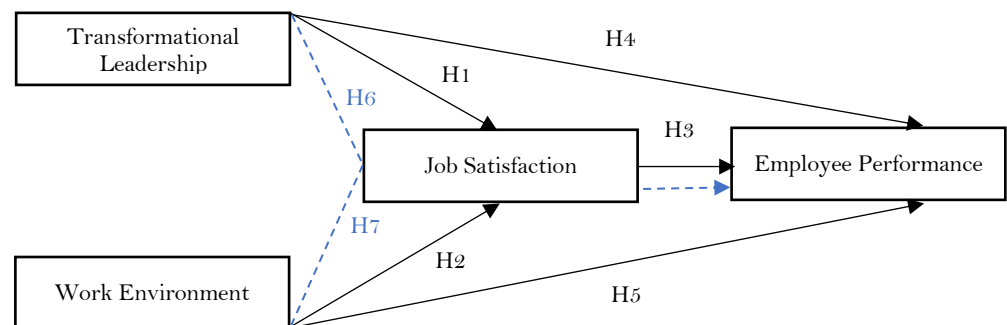


Figure 1. Research Framework

Figure 1 illustrates the proposed research framework examining the relationships among transformational leadership, work environment, job satisfaction, and employee performance. The model proposes that transformational leadership and the work environment directly influence both job satisfaction and employee performance. In addition, job satisfaction is expected to have a direct positive effect on employee performance while simultaneously serving as a mediating variable that explains the indirect effects of transformational leadership and the work

environment on employee performance. The framework emphasizes that employee performance is influenced not only by organizational factors but also through employees' job satisfaction.

3. Methods

This research used a quantitative approach with a survey design to examine the relationships between variables in the research model. The research location was Bandung, a hub for business activity and digital transformation. The population consisted of employees working in the service and creative industries sectors, who have been exposed to digital transformation. The sampling technique used purposive sampling, with respondents having at least one year of work experience and engaging in the use of digital technology in the workplace. The sample size of 125 respondents was deemed sufficient for analysis using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach.

Data collection was conducted using a questionnaire based on a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). The research instrument was developed based on adaptations of relevant previous studies and adapted to the research context. The variables used in this study consisted of transformational leadership and work environment as independent variables, job satisfaction as a mediating variable, and employee performance as the dependent variable.

The variables in this study were operationalized using measurement indicators adapted from previous literature. Transformational leadership was measured through three indicators: vision inspiration, individual attention, and intellectual stimulation. These indicators reflect a leader's ability to communicate a compelling vision, provide personalized support to employees, and encourage innovative thinking and problem-solving. The work environment was measured using three indicators: physical working conditions, social work relationships, and organizational support. These indicators capture employees' perceptions of workplace facilities and safety, the quality of interactions among colleagues, and the extent to which the organization provides the resources and support needed to perform effectively.

Job satisfaction was assessed through three indicators, namely overall job satisfaction, satisfaction with the work environment, and satisfaction with rewards. These indicators represent employees' overall evaluation of their jobs, their satisfaction with workplace conditions, and their perceptions of the fairness and adequacy of the rewards they receive. Employee performance was measured using three indicators: work quality, work productivity, and punctuality. These indicators reflect employees' ability to produce high-quality work, maintain productive performance, and complete assigned tasks within the required timeframes. Together, these indicators provide a comprehensive assessment of employee performance in achieving organizational objectives.

Data analysis was conducted using the PLS-SEM method with the assistance of SmartPLS software. The analysis phase included testing the measurement model (outer model) to verify the construct's validity and reliability through factor loading values, Average Variance Extracted (AVE), Composite Reliability (CR), and Cronbach's Alpha. Next, the structural model (inner model) was tested to examine the relationships between variables using path coefficients, t-statistics, and p-values, with bootstrapping techniques. Furthermore, a mediation effect test was conducted to determine the role of job satisfaction in mediating the relationship between transformational leadership and the work environment on employee performance.

4. Results

This study analyzes the role of transformational leadership and work environment on employee performance, mediated by job satisfaction, using the PLS-SEM approach with 125 respondents in Bandung, West Java. The analysis was conducted in two main stages: evaluation of the measurement model (outer model) and the structural model (inner model).

Table 1. Convergent Validity and Reliability Results

Variable	Loading Factor Range	AVE	Composite Reliability	Cronbach's Alpha
Transformational Leadership	0.72 – 0.85	0.61	0.87	0.81
Work Environment	0.70 – 0.83	0.59	0.86	0.79
Job Satisfaction	0.73 – 0.88	0.64	0.89	0.83
Employee Performance	0.75 – 0.86	0.65	0.90	0.85

Based on Table 1, the results of the outer model evaluation indicate that all indicators meet convergent validity criteria, with factor loadings above 0.70. The AVE values for all constructs are also above the threshold of 0.50, indicating that the latent variables adequately explain the indicator variance. Furthermore, the Composite Reliability and Cronbach's Alpha values for all variables are above 0.70, indicating a good level of reliability.

Table 2. R-Square and Model Fit

Variable	R ²	Interpretation
Job Satisfaction	0.62	Moderate–Strong
Employee Performance	0.68	Strong

Based on Table 2, the inner model evaluation showed that the R² value for the job satisfaction variable was 0.62, meaning that 62% of the variance in job satisfaction was explained by transformational leadership and the work environment. Meanwhile, the R² value for employee performance was 0.68, indicating that the model has strong predictive power in explaining employee performance.

Table 3. Hypothesis Testing Results (Direct Effects)

Relationship	Path Coefficient	t- statistic	p- value	Result
Transformational Leadership → Job Satisfaction	0.45	5.12	0.000	H1 Supported
Work Environment → Job Satisfaction	0.41	4.78	0.000	H2 Supported
Job Satisfaction → Employee Performance	0.38	4.55	0.000	H3 Supported
Transformational Leadership → Employee Performance	0.29	3.67	0.000	H4 Supported
Work Environment → Employee Performance	0.26	3.21	0.001	H5 Supported

Based on Table 3, the results of the first hypothesis test indicate that transformational leadership has a positive and significant effect on job satisfaction, with a path coefficient of 0.45, a t-statistic of 5.12, and a p-value of 0.000 (<0.05). A t-statistic greater than 1.96 indicates that this relationship is statistically significant; thus, H1 is accepted. The large coefficient indicates that improving the quality of transformational leadership can substantially increase employee job satisfaction.

Significantly, this finding indicates that an inspirational, visionary, and supportive leadership style can create a more positive psychological state for employees, resulting in greater job satisfaction.

The results of the second hypothesis test indicate that the work environment has a positive and significant effect on job satisfaction, with a path coefficient of 0.41, a t-statistic of 4.78, and a p-value of 0.000. With a t-statistic above 1.96 and a p-value below 0.05, H2 is accepted. This suggests that a conducive work environment, both physically and socially, plays a significant role in enhancing job satisfaction. Substantively, these results indicate that employees who work in a safe, comfortable environment supported by good working relationships tend to have higher levels of satisfaction, which ultimately contributes to psychological stability and work motivation.

Testing the third hypothesis indicates that job satisfaction has a positive and significant effect on employee performance, with a coefficient of 0.38, a t-statistic of 4.55, and a p-value of 0.000. Because the t-statistic exceeds 1.96 and the p-value is <0.05 , H3 is accepted. These findings indicate that job satisfaction is an important determinant in improving employee performance. Interpretively, employees who are satisfied with their jobs tend to have higher motivation, stronger commitment, and the ability to work more effectively and productively, resulting in more optimal work performance.

The results of the fourth hypothesis test analysis indicate that transformational leadership has a positive and significant effect on employee performance, with a path coefficient of 0.29, a t-statistic of 3.67, and a p-value of 0.000. Therefore, H4 is accepted. Although its effect is smaller than that of job satisfaction, these results still demonstrate that transformational leadership directly contributes to improving employee performance. Significantly, leaders who provide inspiration, vision, and strategic support can encourage employees to perform better, increase productivity, and achieve organizational goals more effectively.

The results of the fifth hypothesis test indicate that the work environment has a positive and significant effect on employee performance, with a coefficient of 0.26, a t-statistic of 3.21, and a p-value of 0.001 (<0.05). Therefore, H5 is accepted. These findings indicate that a positive work environment not only increases job satisfaction but also directly improves performance. Substantively, a supportive work environment enables employees to work more focused, efficiently, and productively, thus contributing to higher performance within the organization.

Table 4. Mediation Effect (Indirect Effect)

Hypothesis	Relationship	Indirect Effect	t-statistic	p-value	Mediation Type
H6	Transformational Leadership → Job Satisfaction → Employee Performance	0.17	3.98	0.000	Partial
H7	Work Environment → Job Satisfaction → Employee Performance	0.16	3.75	0.000	Partial

Based on Table 4, the results indicate that job satisfaction partially mediates the relationship between transformational leadership and employee performance, as well as the relationship between the work environment and employee performance. The indirect effect of transformational leadership on employee performance through job satisfaction is 0.17 with a t-statistic of 3.98 and a p-value of 0.000, indicating that the indirect relationship is positive and statistically significant. Similarly, the indirect effect of the work environment on employee performance through job satisfaction is

0.16 with a t-statistic of 3.75 and a p-value of 0.000, confirming a significant positive mediating effect.

The findings demonstrate that job satisfaction functions as an important psychological mechanism through which transformational leadership and a supportive work environment enhance employee performance. Transformational leaders not only influence performance directly by providing inspiration, guidance, and individualized support, but also indirectly by increasing employees' satisfaction with their jobs, which subsequently encourages higher work quality, productivity, and punctuality. Likewise, a conducive work environment characterized by favorable physical conditions, positive social relationships, and adequate organizational support contributes to greater employee satisfaction, which in turn motivates employees to perform more effectively.

The identification of partial mediation indicates that transformational leadership and the work environment continue to exert significant direct effects on employee performance while simultaneously influencing performance indirectly through job satisfaction. In other words, job satisfaction explains part, but not all, of the relationship between these organizational factors and employee performance. These findings suggest that organizations seeking to improve employee performance should not only strengthen transformational leadership practices and create a supportive work environment but also implement strategies that enhance employees' job satisfaction. By simultaneously addressing these factors, organizations can maximize both the direct and indirect pathways leading to higher levels of employee performance.

5. Discussion

The findings of this study confirm that transformational leadership and the work environment are important determinants of employee job satisfaction and performance. Transformational leadership was found to have a positive and significant effect on job satisfaction, indicating that leaders who inspire, individualized support, and intellectual stimulation create more positive work experiences for employees. This finding is consistent with Choi et al. (2016), who argued that transformational leadership enhances employee satisfaction through empowerment, as well as Eliyana and Ma'arif (2019), who emphasized the role of inspirational leadership in strengthening employee engagement. Similarly, Hilton et al. (2023) reported that idealized influence and individualized consideration significantly improve employee job satisfaction. These findings suggest that transformational leadership contributes to employees' psychological well-being while fostering favorable attitudes toward work.

The results also demonstrate that transformational leadership positively influences employee performance. This finding supports Budur and Demir (2022), who found that transformational leadership improves performance by encouraging positive organizational behavior, and Jiatong et al. (2022), who highlighted employee engagement as an important mechanism through which transformational leadership enhances work performance. In the present study, transformational leadership contributed to better work quality, productivity, and punctuality, indicating its strategic role in improving employee outcomes.

The work environment was also found to have significant positive effects on both job satisfaction and employee performance. This finding is consistent with García-Salirrosas et al. (2023), who emphasized the importance of supportive working conditions and work-life balance in enhancing employee satisfaction. Likewise, Dia (2024) and Febryan and Kamilia (2025) concluded that favorable physical conditions, positive social relationships, and organizational support contribute to higher job satisfaction. Regarding employee performance, the present findings are in line with López-Cabarcos et al. (2022), Zhenjing et al. (2022), and Sutaguna et al. (2023), who

reported that a conducive work environment improves employee productivity, efficiency, and overall performance.

Furthermore, job satisfaction was found to have a positive and significant effect on employee performance, confirming that satisfied employees are more motivated, committed, and productive. This finding is consistent with Tarigan et al. (2022), Djuli et al. (2023), and Latifah et al. (2024), who similarly reported that higher job satisfaction leads to better employee performance. The mediation analysis further revealed that job satisfaction partially mediates the relationships between transformational leadership and employee performance, as well as between the work environment and employee performance. These results support the findings of Curado and Santos (2022), Rismayadi (2022), Alwali and Alwali (2022), and Siyaphat et al. (2024), which identified job satisfaction as an important mechanism linking organizational factors to employee performance. The partial mediation indicates that transformational leadership and the work environment influence employee performance both directly and indirectly through job satisfaction, highlighting the importance of simultaneously strengthening leadership practices, improving the work environment, and enhancing employee satisfaction to achieve optimal organizational performance.

6. Conclusion

This study aims to analyze the role of transformational leadership and work environment in improving employee performance through job satisfaction as a mediating variable. The results showed that all tested relationships were positive and significant. Transformational leadership was proven to influence job satisfaction and employee performance, indicating that an inspirational, visionary, and supportive leadership style can improve employee satisfaction and performance. In addition, the work environment also had a significant influence on job satisfaction and employee performance, confirming that a conducive, safe, and supportive work environment contributes to increased employee well-being and productivity. Job satisfaction itself was proven to be an important determinant in improving employee performance, while also acting as a partial mediator in the relationship between transformational leadership and work environment on employee performance.

These findings emphasize the importance of organizations integrating transformational leadership strategies and quality work environment management as part of their human resource management policies. Efforts to improve performance are not limited to structural approaches; they must also address employees' psychological aspects by increasing job satisfaction. However, this study has several limitations. First, the research design used a quantitative, survey-based approach with PLS-SEM. Hence, the results focused more on relationships between variables than on an in-depth exploration of the organizational behavioral context. Second, the sample size was limited to 125 respondents in the Bandung area, West Java, so generalizing the research results to other regions or industries requires caution. Third, the variables used were limited to transformational leadership, work environment, job satisfaction, and employee performance, thus not encompassing other potentially relevant factors such as organizational culture, employee engagement, or digital capability. Therefore, further research is recommended to expand the scope of variables and the research context to gain a more comprehensive understanding.

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