

# Leader-Member Exchange and Employee Performance: Mediating Roles of Work Engagement and Job Satisfaction

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## ABSTRACT

The purpose of this study is to investigate and evaluate the direct or indirect effects of leader-member exchange on work engagement and job satisfaction on employee performance. The study encompassed 215 employees who worked at the Office of the Regional Tax and Retribution Management Agency of Medan City, with 140 employees constituting the sample size. Questionnaires and interviews were employed in this study's data collection process. SmartPLS (Partial Least Square) 4.0 software is utilized for structural equation modeling in statistical analysis. The results of this study indicate that direct leader-member exchange, work engagement and job satisfaction have a significant effect on employee performance. Leader-member exchange has a significant effect on performance through work engagement and employee job satisfaction at the Office of the Regional Tax and Retribution Management Agency of Medan City. This research provides information for the Office of the Regional Tax and Retribution Management Agency of Medan City and related parties to improve employee performance by increasing job satisfaction, and work engagement and improving existing leadership to provide employee comfort.

## ABSTRAK

Tujuan dari penelitian ini adalah untuk menyelidiki dan mengevaluasi efek langsung atau tidak langsung dari pertukaran pemimpin-anggota pada keterlibatan kerja dan kepuasan kerja terhadap kinerja karyawan. Penelitian ini mencakup 215 karyawan yang bekerja di Kantor Badan Pengelolaan Pajak dan Retribusi Daerah Kota Medan, dengan 140 karyawan sebagai sampel. Kuesioner dan wawancara digunakan dalam proses pengumpulan data penelitian ini. Perangkat lunak SmartPLS (Partial Least Square) 4.0 digunakan untuk pemodelan persamaan struktural dalam analisis statistik. Hasil penelitian ini menunjukkan bahwa secara langsung leader member exchange, work engagement dan kepuasan kerja berpengaruh signifikan terhadap kinerja karyawan. Leader member exchange berpengaruh signifikan terhadap kinerja melalui keterikatan kerja dan kepuasan kerja pegawai pada Kantor Badan Pengelolaan Pajak dan Retribusi Daerah (BPPRD) Kota Medan. Penelitian ini memberikan informasi bagi Kantor Badan Pengelolaan Pajak dan Retribusi Daerah (BPPRD) Kota Medan, dan pihak-pihak terkait untuk meningkatkan kinerja pegawai dengan cara meningkatkan kepuasan kerja, keterlibatan kerja serta memperbaiki kepemimpinan yang ada untuk memberikan kenyamanan karyawan.

## 1. INTRODUCTION

In essence, the organization was formed to work together to achieve agency goals (Peters, 2018). In achieving common goals, the agency will be led by a qualified leader responsible for all forms of overall activity for his subordinates, both professionally at work and socially within the agency environment (Kozlowski, 2018). Utilization and maintenance of human resources effectively and efficiently is the key to improving the performance of employees in agencies. All forms of achievement achieved by agencies are inseparable from good employee performance and the guidance and direction of a good leader. Each member of an organization can feel it. The atmosphere of a good work environment is created. This can affect employee performance (Paais & Pattiruhu, 2020). In today's business world, to compete and maintain excellence requires workers as drivers of industrial activity. Hence, they need special attention because they are the ones who spend their

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time, thoughts, and energy. This situation makes workers assets whose performance must be improved. Performance is the measurable output an individual produces while executing assigned tasks, influenced by their skill, experience, dedication, and time invested (Saleem, Malik, & Qureshi, 2021).

Work engagement has become the focus of research in the last decade because it is needed in the business environment. According to Wen, Huang, & Teo (2023), work engagement is a process to involve employees at all levels of the organization in decision-making and problem-solving. According to Cahill, McNamara, Pitt-Catsoupes, & Valcour (2015), work engagement is also considered a psychological state associated with enthusiasm, absorption, and dedication to one's work. Work engagement is influenced by various work-related personal factors (Contreras, Espinosa, & Esguerra, 2020). The relationship between superiors and subordinates is the most related factor. Leader-member exchange (LMX) is associated with employee engagement, where LMX is an essential aspect of organizational life that influences behavioral outcomes as well as the engagement process (Li, Sanders, & Frenkel, 2012; Wagner & Koob, 2022).

LMX, according to Casimir, Waldman, Bartram, & Yang (2006), is the leader-follower relationship within a given organizational work unit. A leader and team members who share a high standard of LMX are characterized by reciprocal influence, desire, and trust (Erdogan & Bauer, 2015). According to Kambu, Troena, Surachman, & Setiawan (2012), low-quality LMX has the following characteristics: superior-subordinate interaction tends to be formal. Therefore, a superior will use authority to influence his subordinates, have a low level of role negotiation, rarely talk to subordinates about task effectiveness, and rarely help subordinates by assigning different assignments (Dulebohn, Bommer, Liden, Brouer, & Ferris, 2012). Social exchange theory is a form of LMX because it is considered a direct relationship between the leader and the team (Wagner & Koob, 2022).

The results of previous research conducted by Prathama & Mujiati (2022) and Suharnomo & Kartika (2018) state that LMX influences employee performance. This is similar to previous research, which states that LMX positively and significantly influences employee performance (Suryono & Kartika, 2019). According to Chaurasia & Shukla (2013), mediation analysis of job performance mediating LMX and job performance are positively related. When LMX is high quality, employees feel more satisfied with the organization (Martin, Thomas, Legood, & Dello Russo, 2018). Job satisfaction is a person's or employee's assessment, feeling, or attitude toward their work and its relationship with the work environment, type of labor, compensation, social relations at work, and other factors (Robbins & Judge, 2013). The performance of an organization is profoundly influenced by both individual and collective job satisfaction. This is rational because an employee is motivated to improve his work performance when he experiences job satisfaction (Bakotik, 2016). Previous researchers with different or inconsistent results have tested the relationship between these variables. LMX positively affects job satisfaction (Fisk & Friesen, 2012). The higher the quality of the LMX, the greater employee satisfaction with their current position in the organization. In contrast to the results of research conducted by Malik, Wan, Ahmad, Naseem, & Rehman (2015) and Fisk & Friesen (2012), LMX has a positive and insignificant effect on employee job satisfaction. LMX still needs to explain the relationship between the influence of employee job satisfaction.

Job satisfaction has a direct, positive, and significant effect on employee performance (Jufrizen, Lumbanraja, Salim, & Gultom, 2017). Employee job satisfaction related to supervision and evaluation, assignment competence by the leadership, and employee satisfaction with implementing the system operating procedure assertiveness are proven to encourage employees to complete the amount (volume) of work or tasks. The ability of employees to complete their work or duties reflects good employee performance conditions. In contrast to the research results conducted by Husein & Hanifah (2019) and Purwadi, Darma, Febrianti, & Mirwansyah (2020), job satisfaction is insignificant to employee performance. According to Yao, Qiu, Yang, Han, & Li (2022) and Yongxing, Hongfei, Baoguo, & Lei (2017), there is a significant and positive effect of work engagement on employee performance. The higher the value of work engagement, the higher the value of employee performance. In contrast to the results of research conducted by Rokhman, Rivai, & Adewale (2011) and Baharsyah & Nugrohoseno (2021), work engagement has no significant effect on employee performance.

Based on the initial survey, several phenomena were found in the problem of the relationship between leaders and subordinates, such as limited interaction between leaders and subordinates, limited communication, indifference, and deviant behavior as members of the work team. There is still nepotism, then the delegation of workloads that need to follow the job desk of each subordinate, without providing socialization and direction and giving appreciation to subordinates who have accepted the workload. The leader

feels indifferent to his responsibilities to subordinates without involving the leader's participation in completing the assigned tasks. This will affect the respect and honor between subordinates and their leaders. The leader does not give special appreciation to employees, so this also causes other employees to be reluctant to involve/include themselves in taking on the tasks and responsibilities given by the leader, so they tend to ignore the leader's instructions and employees do not feel job satisfaction in the agency. If these conditions occur continuously, the quality of employee performance may decrease or fluctuate. A decrease in performance will impact the continuity and environment of the agency. Under these conditions, the problems employees face will affect the agency's continuity related to achieving the targets, goals, and ideals. Issues such as the exchange of leadership members, work engagement, and job satisfaction, can affect employee performance. In addition, employees of the Regional Tax and Retribution Management Agency are required to perform better than before due to demands for achieving targets, goals, and aspirations of the agency.

From the above explanation regarding the basis of this research, the research problem formulation is stated as follows: (1) Does LMX influence work engagement? (2) Does LMX influence job satisfaction? (3) Does LMX influence employee performance? (4) Does work engagement influence employee performance? (5) Does job satisfaction influence employee performance? (6) Does LMX influence employee performance through work engagement? (7) Does LMX influence employee performance through job satisfaction?

## **2. THEORETICAL FRAMEWORK AND HYPOTHESES**

### **2.1. Employee Performance**

Employee performance is determined by how much an individual fulfills their assigned responsibilities. Employee performance is correlated with the effectiveness and efficiency with which employees execute activities and tasks (Pacheco & Coello-Montecel, 2023). According to Mathis & Jackson (2015), employee performance can be defined as the outcome of an individual's diligent execution of their assigned responsibilities, encompassing the caliber and quantity of their effort. Enhancing employee performance is imperative for the work unit to accomplish its aims, objectives, vision, and mission (Cakir & Adiguzel, 2020). Overall, employee performance is evaluated based on the quantity and quality of their output. Accuracy, thoroughness, skill, cleanliness of work results, relevance of work results while not disregarding work volume, and skillful execution of tasks are all components of work quality (Vu, 2022). The work quantity, meanwhile, comprises the rate of work, the quantity manufactured, and the count of completed activity cycles (Mathews & Khann, 2016; Wang & Chen, 2022).

Performance is important to us as individuals and organizations. Performance is frequently identified or equated with effectiveness and efficiency, as an organization's performance depends on the workforce's quality at all levels of the organization (Hwang & Park, 2022). According to Saeed et al. (2013), performance measurement pertains to the ongoing evaluation of the work performed by managers and their subordinates. Leading indicators for measurement consist of quantity, quality, timeliness, and cost-effectiveness. Employee performance means that a selected individual or person completes a task according to predetermined acceptable standards established and measured by a supervisor or organization while effectively and efficiently using available resources in a changing environment (López-Cabarcos, Vázquez-Rodríguez, & Quiñoá-Piñero, 2022).

Based on Venkatesh, Davis, & Zhu (2022), employee performance is a crucial aspect of the organization, and the manager must focus on managing it. Moreover, Xie & Li (2021) state that performance is critical in building the groundwork for the organization. Performance must be evaluated critically for employees to succeed. The same topic stated by Muda, Rafiki, & Harahap (2014) is that employee performance is defined as meeting quality expectations based on policy and time constraints.

### **2.2. Leader-Member Exchange (LMX)**

LMX refers to a situation where a leader establishes interpersonal connections with subordinates, leading to mutual influence and negotiation of the subordinate's position within the organization (Yukl & Gardner, 2020). LMX pre-present the interaction between leaders and their followers in a unit of the organization's operation (Regts, Molleman, & van de Brake, 2019). The expert opinion above describes how leaders build distinct exchange relationships with subordinates occasionally. A LMX represents the relationship between leaders and followers in an organizational work unit. Control over the results subordinates want is achieved through the high-quality leader-member interchange. These outcomes include things like interesting and enjoyable assignments, the more significant delegation of responsibility and authority, increased information

sharing, participation in making the majority of the leader's decisions, tangible rewards (such as salary increases, unique benefits, support, and personal approval, and career ease for subordinates), and career ease for subordinates (Arrasyid, Amaliyah, & Pandin, 2019).

LMX is a mutually beneficial connection that incorporates communication between leaders and employees through familiarity, service to others, mutual loyalty, and respect among persons. Good relations between leaders and employees are expected to improve agency performance. The relationship forged by each employee and the leader varies from one to another ( Li, Li, Chen, & Crant, 2022). Other opinions (Wynendaele, Gemmel, Peeters, Myny, & Trybou, 2021; Daft, 2017) state that LMX is a behavior related to work, respecting the skills and knowledge of leaders, loyalty to one another, and liking one another. LMX is a two-way connection between the leader and his followers that promotes organizational effectiveness by fostering positive relationships between leaders and followers (Daft, 2017). According to Graen & Uhl-Bien (1995), the dimensions and indicators used to measure the high quality of the LMX are respect, trust, and obligation. LMX itself has several dimensions, including effect, contribution, loyalty, and professional respect (Liden & Maslyn, 1998).

### 2.3. Work Engagement

There are many definitions related to work engagement or work engagement, one of which is according to Wen, Huang & Teo (2023), stating that work engagement is a passion for work that involves positive feelings about your work, as well as preparing to go the extra mile and make sure you do the best job to the best of your ability. According to several other academics, employee work engagement is a psychological condition in which employees have a favorable attitude toward the firm and its ideals and perform at a level that exceeds job standards (Stephanie & Gustomo, 2015). The psychological comfort of trustworthy relationships (particularly with superiors), clear duties and values to express oneself, and sensitivity to a fault are more appropriate to learning than competitiveness (Heslin, Keating, & Ashford, 2020).

The concept of work engagement was first introduced by Kahn (1990). Work engagement is defined as an employee's mastery of their job position, in which they will link themselves to their work and then work and express themselves physically, cognitively, and emotionally during their performance. The physical aspect refers to the physical energy employees mobilize to carry out their work. In contrast, the cognitive aspect relates to the employee's belief in the company, leaders, and job conditions. At the same time, the emotional aspect refers to how workers feel, whether they are good or not towards the company. In addition, according to Saks (2006), work engagement is a concept in business management that asserts that employees who have high work engagement are completely involved and possess a strong enthusiasm for their work and activities about the long-term goals of the company. According to Burić, Zuffianò, & López-Pérez (2022), *work engagement* is uniquely positively related to work that gives enthusiasm, dedication, and absorption to employees based on a sense of attachment to the company. Employees engaged in a job will have a high level of energy and enthusiasm, dedication to work, and become inspired by their work. Employees feel involved when physically, cognitively, and emotionally bound, as shown through work engagement in their duties—employees who have work engagement work consistently at a high level. Employees will contribute positively to the organization and are committed to the work given (Ok & Lim, 2022).

### 2.4. Job Satisfaction

Job satisfaction is the outcome of assessing the qualities of work and experiencing positive emotions towards it. Job satisfaction measures an individual's contentment with different aspects of the company (Robbins & Coulter, 2018). It illustrates the disparity between an individual's expectations or values regarding the job and the provisions offered by the company. Job satisfaction refers to the emotional state of contentment and fulfillment experienced by an individual in their professional role (Bryan & Vitello-Cicciu, 2022; Gul, Usman, Liu, Rehman, & Jebran, 2018). Those who work always expect to get satisfaction from their place of work, and job satisfaction will affect productivity, which the company highly expects (Sadick, Kpamma & Agyefi-Mensah., 2020; Sabuhari, Jabib, Rajak & Soleman, 2021; Siengthai & Pila-Ngarm, 2016). Consequently, business executives must comprehend the measures that must be taken to ensure employee job satisfaction. Giel & Breuer (2021) state that there are four indicators of job satisfaction: satisfaction with work (satisfaction with work is achieved when an employee's work matches the employee's interests and abilities); satisfaction with rewards (employees believe their salary or wages are following their workload and are balanced with other

employees working in the organization); satisfaction with colleagues (employees are satisfied with colleagues who can provide technical assistance and social encouragement); and promotion opportunities (opportunities to improve positions in the organizational structure).

### **2.5. The Effect of Leader-Member Exchange (LMX) on Work Engagement**

A good relationship carried out by a leader with subordinates will affect the performance of employees. Leaders who can influence subordinates well will create good emotional or psychological feelings following the skills and expertise of the leader in managing these good relations (Jufrizen & Nasution, 2021). The performance of an industrial organization is contingent not only on employee conduct as outlined in their job descriptions (in-role behavior) but also on conduct that extends beyond the scope of their job descriptions (extra-role behavior). To achieve the desired work results, employees must feel organizational commitment (Jufrizen, Lumbanraja, Salim & Gultom, 2017). Organizational commitment can foster employees' willingness to carry out activities outside the primary duties of work and involve themselves in taking on tasks by participating in employee work engagement. This follows the results of prior researches (Wagner & Koob, 2022; Li, Sanders & Frenkle, 2012; Breevaart, Bakker, Demerouti, & Heuve, 2015; Aggarwal, Chand, Jhamb, & Mittal, 2020). Hence, we assume that there is a significant influence between leader-member exchange and work engagement on employees. Based on these linkages, we hypothesize that:

**H1** LMX affects work engagement.

### **2.6. The Effect of Leader-Member Exchange (LMX) on Job Satisfaction**

Job satisfaction refers to the disposition of employees towards their work, which emerges from a dialogue between superiors and subordinates regarding an evaluation of the work environment. This evaluation can be applied to one of his occupations, which entails a feeling of gratitude for attaining one of the critical principles in the workplace (Davidescu, Apostu, Paul, & Casuneanu, 2020). LMX is a reciprocal connection in which leaders and employees communicate with one another through familiarity, contribution to others, mutual loyalty, and respect among individuals. Agency performance is predicted to improve if leaders and employees have good relationships (Kangas, 2021). The relationship that every employee and leader forge certainly varies from one to another (Prathama & Mujiati, 2022). A good relationship will create a good work environment as well, which will have an impact on employee performance and satisfaction with their work. Similarly, some previous studies (Bitmiş & Ergeneli, 2011; Fisk & Friesen, 2012; Liao, Hu, Chung, & Chen, 2017) shows that there is a positive and significant influence between LMX on job satisfaction. Based on these linkages, we hypothesize that:

**H2** LMX affects job satisfaction.

### **2.7. The Effect of Leader-Member Exchange (LMX) on Employee Performance**

Leadership is the prime mover for all existing resources within an agency, both private and government. A leader must have a great responsibility and be able to provide direction for subordinates. The organization's sustainability is seen in how a leader leads and influences his subordinates to achieve the goals set by the agency (Fahlevi, Aljuaid, & Saniuk, 2022). Healthy interactions between leaders and subordinates will affect the performance of subordinate employees. Leaders who can implement relationships that follow the characteristics and interests of the organization's company will make their subordinates feel comfortable at work so that employee performance will increase. This follows previous researches (Prathama & Mujiati, 2022; Harris, Wheeler, & Kacmar, 2009; Li, Sanders & Frenkel, 2012; Suharnomo & Kartika, 2018), which states that leader-member exchange has a positive and significant effect on employee performance. Based on these linkages, we hypothesize that:

**H3** LMX affects employee performance.

### **2.8. The Effect of Work Engagement on Employee Performance**

Work engagement is an initiative and shared responsibility owned by individual employees. Work engagement refers to employee work engagement, job satisfaction, enthusiasm, motivation, and enthusiasm of employees working in organizational institutions (Sypniewska, Baran, & Klos, 2023). According to Qalati, Zafar, Fan, Sánchez Limón, & Khaskheli (2022), employee performance can increase when employees feel that they have more authority to make decisions at work, make an essential contribution to the success or failure of their company, and have the authority to decide their work steps. In other words, high work

engagement can improve performance. The above can be supported by previous studies (Paliga, 2022; Tisu, Lupşa, Virgă, & Rusu, 2020; Li, Leung & Li, 2021), which state that work engagement has a significant positive effect on employee performance. Based on these linkages, we hypothesize that:

**H4** Work engagement affects employee performance.

### **2.9. The Effect of Job Satisfaction on Employee Performance**

Job satisfaction reflects a person's positive emotional feelings or attitudes resulting from his work experience and the characteristics of his work. If an employee is content with his work, he will feel joyful and relieved of stress, giving him the confidence to continue working in the workplace and influencing employee performance (Wang & Jing, 2018). As asserted by Jufrizen & Kanditha (2021), job satisfaction and performance exhibit a positive and substantial correlation, indicating that as employee satisfaction increases, so does employee performance. The above can be supported by previous research conducted by Goetz & Wald (2022), Wayoi, Margana, Prasajo, & Habibi (2021), and Kim & Choi (2018), which shows that job satisfaction has a positive effect on employee performance. Based on these linkages, we hypothesize that:

**H5** Job satisfaction affects employee performance.

### **2.10. The Effect of Leader-Member Exchange (LMX) on Employee Performance through Work Engagement**

A leader is an individual who can lead and influence others. A leader can provide direction to his subordinates. A good relationship between leaders and subordinates can affect the atmosphere in the workplace. A solid relationship between leaders and subordinates will motivate an employee to perform an activity if it is considered a role that will be a different role with no reward (Khan, Rehmat, Butt, Farooqi, & Asim, 2020). Employee work engagement can be demonstrated by doing additional work if the leader needs it, helping to solve problems, and feeling responsible for the work. Work engagement can arise from the volunteerism of an employee. Employee performance plays an essential role because the progress or decline of the organization depends on employee performance. Work engagement is considered to be closely related to performance (Benevene, Buonomo, & West, 2020). This follows the research results conducted by Chaurasia & Shukla (2013) and Sepdiningtyas & Santoso (2017), stating that LMX influences employee performance through employee work engagement. Based on these linkages, we hypothesize that:

**H6** LMX affects employee performance through work engagement.

### **2.11. The Effect of Leader-Member Exchange (LMX) on Employee Performance through Job Satisfaction**

An agency organization can be prosperous if the goals and ideals expected by the agency can be achieved. In achieving organizational targets, an agency is led by someone capable and capable of leading and influencing others. A leader can provide direction to his subordinates. Creating a good relationship between leaders and subordinates can affect the atmosphere in the workplace. A good relationship between leaders and subordinates will make an employee carry out an activity if it is considered a role that will be an additional role without seeing any reward (Steinmann, Klug, & Maier, 2018). Someone will feel passionate about working and satisfied with the work done. If the level of employee job satisfaction looks high enough, then the employee's performance will be optimal. Employee performance plays an important role because the progress or decline of the organization depends on employee performance. Job satisfaction is closely related to employee performance in agency organizations (Memon, Khahro, Memon, Memon, & Mustafa, 2023). This follows the results of research conducted by Suharnomo & Kartika (2018), Wulandari, Amaliyah, & zPurwandaya (2020), and Supriyanto, Ekowati, Reza, & Mitasari (2021), asserting that LMX influences employee performance through employee job satisfaction. Thus, we hypothesize that:

**H7** LMX affects employee performance through job satisfaction.

Based on the explanation above, by adjusting to previous studies, the relationship between LMX and employee performance through work engagement and job satisfaction can be seen in Figure 1.

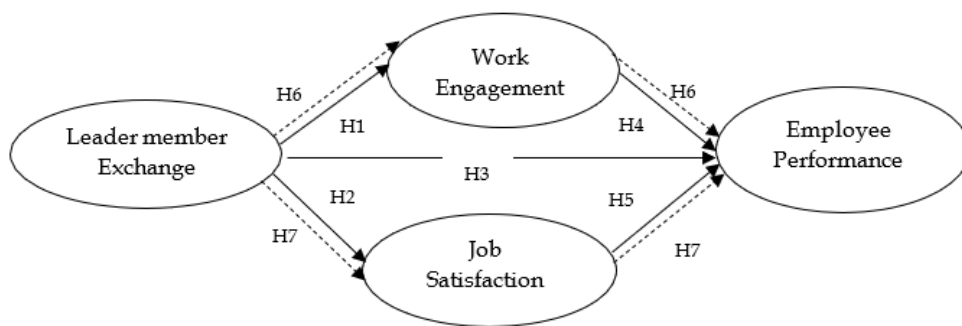


Figure 1. Conceptual framework

### 3. RESEARCH METHOD

This study employs a quantitative research methodology that utilizes an associative approach, specifically focusing on determining the relationship between two or more variables (Sugiyono, 2018). In this study, the sampling technique used was the Slovin technique, so a sample of 140 employees was obtained. Data collection techniques used are questionnaires and interviews.

Employee performance is the result of the process carried out in a job carried out by employees with consistent quality and quantity from time to time, whether carried out by profit or non-profit corporate institutions. Indicators of employee performance are accuracy in the completion of tasks, suitability of working hours, attendance rate, cooperation between employees, and job satisfaction (Setiawan & Dewi, 2014). LMX, namely the relationship between leaders and employees and vice versa from time to time, connects communication and psychology such as loyalty, respect, and loyalty motivation between one another and can improve employee performance in agency organizations. LMX indicators are affection, contribution, loyalty, and respect (Liden & Malyn, 1998). Work Engagement is a theoretical involvement that refers to employee work engagement, job satisfaction, enthusiasm, motivation, and enthusiasm of employees working in organizational institutions. Indicators of work engagement are vigor, dedication, and absorption (Schaufeli & Bakker, 2010). Job satisfaction reflects a pleasant emotional feeling or attitude derived from a person's work experience and the characteristics of his work. If an employee is satisfied with his work, he will feel cheerful and relieved of stress, giving him the confidence to continue working in his current surroundings. Job satisfaction indicators are financial satisfaction, physical satisfaction, social satisfaction, and psychological satisfaction (Supriyanto & Machfudz, 2017). Data collection techniques used are questionnaires and interviews. This study employs partial regression analysis, specifically Partial Least Squares (PLS), to examine the seven hypotheses proposed in this study. PLS is a robust analytical method that relies on a small number of assumptions as a technique for data analysis.

### 4. DATA ANALYSIS AND DISCUSSION

The respondents' demographic profile, as exhibited in Table 1, shows that women comprised the majority of respondents (60%, or n = 84) compared to men (40%, or n = 56). The majority of respondents were under the age of 40 (35%, or n = 49), while only 41 respondents (29.3%) were under 30 years old. Similarly, 35% (n = 49) of employees have a bachelor's degree. Furthermore, most employees have a merit status of 65.7% (n=92).

#### 4.1. Outer Model Analysis

##### 4.1.1. Validity test

Convergent validity refers to the concept that the observable variables of a construct should be strongly linked. Convergent validity is assessed by examining the loading factor and the Average Variance Extracted (AVE) value. In the convergent validity test, it is generally accepted that the loading factor value should be greater than 0.5, and the average variance extracted (AVE) value should also be greater than 0.5 (Ghozali & Latan, 2015). AVE results are presented in Table 2. According to the Table 2, it is evident that the AVE value for each variable exceeds 0.5. The variable or construct being used is valid. Table 2 indicates that the AVE value for the leader-member exchange is 0.596, while the work engagement is 0.720.

**Table 1.** Demographic respondents

Characteristics	Description	Frequency	Percentage (%)
Gender	Man	56	40
	Woman	84	60
Age	< 30 Years	41	29.3
	30-39 Years	49	35
	40-50 Years	22	15.7
	> 50 Years	28	20
Education	High school	22	15.7
	Diploma	47	33.6
	Bachelor	49	35
	Masters	22	15.7
Marital status	Not Married	48	34.3
	Married	92	65.7

Source: Processed Data (2022)

**Table 2.** Average variant extracted (AVE)

Latent Variable	Average Variance Extracted (AVE)
Employee Performance	0.687
Job Satisfaction	0.597
Leader-Member Exchange	0.596
Work Engagement	0.72

Source: Processed Data (2022)

Meanwhile, the levels of job satisfaction and employee performance were 0.597 and 0.687, respectively. The four variables possess an AVE greater than 0.5, signifying the concept's exceptional convergent validity. This implies that the latent variable can account for over half of the average variance observed in the indicators. The outcomes of the test for discriminant validity are displayed in Table 3. Table 3 shows that the value of discriminant validity or loading factor of employee performance for EP1 is 0.873. The correlation for the EP1 indicator is higher than work engagement, which is 0.470, especially for leader-member exchange 0.452 and job satisfaction 0.515. The LMX1 indicator correlation was higher for leader-member exchange at 0.852 than at work engagement at 0.467, job satisfaction at 0.586, employee performance at 0.60, and so on. All loading factor values for a given variable exhibit a stronger correlation with that variable than the other variables. The indicators are identical for each variable. This demonstrates that the indicator placement for each variable is accurate.

#### 4.1.2. Reliability Test

Reliability tests are employed to assess the internal consistency of measuring instruments. Reliability signifies that a measuring instrument provides evidence of its accuracy, consistency, and precision when conducting measurements. Reliability in PLS can be assessed using composite reliability. Composite reliability quantifies the true value of that reliability. A high level of reliability can be attributed to the construct if the value obtained from these measurements exceeds 0.60. Based on the data presented in Table 4, it can be seen that each research variable has a composite reliability value > 0.60. Based on the results obtained, the variables used in the study are declared reliable.

## 4.2. Inner Model Analysis

### 4.2.1. R\_Square

R-square measures how much variance in impacted (endogenous) values can be explained by the influencing variable (exogenous). This can be used to forecast if a model is excellent or terrible. The r-square value of the endogenous latent variable is indicative of the model's strength: 0.75 indicates a substantial (excellent) model, 0.50 indicates a moderate model, and 0.25 indicates a weak model (Juliandi, 2018).



**Table 3.** Discriminant validity

Indicator	Employee Performance	Job Satisfaction	Leader-Member Exchange	Work Engagement	Test results
<b>Employee Performance</b>					
EP.1	0.873	0.515	0.452	0.470	Valid
EP.2	0.840	0.503	0.514	0.487	Valid
EP.3	0.828	0.555	0.495	0.388	Valid
EP.4	0.877	0.594	0.539	0.465	Valid
EP.5	0.756	0.54	0.575	0.448	Valid
EP.6	0.688	0.517	0.522	0.362	Valid
EP.7	0.893	0.522	0.549	0.512	Valid
EP.8	0.856	0.539	0.472	0.433	Valid
<b>Job Satisfaction</b>					
JS.1	0.555	0.865	0.515	0.388	Valid
JS.2	0.466	0.794	0.467	0.355	Valid
JS.3	0.511	0.779	0.448	0.223	Valid
JS.4	0.564	0.832	0.611	0.347	Valid
JS.5	0.571	0.804	0.48	0.354	Valid
JS.6	0.457	0.754	0.499	0.3	Valid
JS.7	0.381	0.666	0.31	0.172	Valid
JS.8	0.467	0.662	0.289	0.263	Valid
<b>Leader-Member Exchange</b>					
LMX.1	0.600	0.586	0.852	0.467	Valid
LMX.2	0.493	0.53	0.733	0.281	Valid
LMX.3	0.461	0.435	0.742	0.261	Valid
LMX.4	0.364	0.414	0.751	0.331	Valid
LMX.5	0.528	0.467	0.806	0.391	Valid
LMX.6	0.489	0.452	0.771	0.406	Valid
LMX.7	0.405	0.315	0.714	0.203	Valid
LMX.8	0.455	0.438	0.798	0.289	Valid
<b>Work Engagement</b>					
WE.1	0.515	0.34	0.334	0.897	Valid
WE.2	0.473	0.261	0.378	0.874	Valid
WE.3	0.476	0.363	0.412	0.921	Valid
WE.4	0.44	0.358	0.391	0.842	Valid
WE.5	0.342	0.327	0.32	0.699	Valid
WE.6	0.36	0.377	0.315	0.717	Valid
WE.7	0.549	0.388	0.406	0.892	Valid
WE.8	0.498	0.299	0.423	0.893	Valid
WE.9	0.429	0.333	0.345	0.872	Valid

Source: Processed Data (2022)

**Table 4.** Reliability test results

Latent Variable	Composite Reliability
Employee Performance	0.946
Job Satisfaction	0.922
Leader-Member Exchange	0.922
Work Engagement	0.958

Source: Processed Data (2022)

**Table 5.** R-Square

Dependent Variable	R Square	R Square Adjusted
Employee Performance	0.563	0.553
Work Engagement	0.191	0.185
Job Satisfaction	0.359	0.355

Source: Processed Data (2022)

As seen in Table 5, it is known that the effect of leader-member exchange, work engagement , and job satisfaction on employee performance with an r-square value of 0.563 indicates that variations in job performance values can be explained by variations in LMX values, work engagement and job satisfaction are 56.3% or in other words that the model is moderate (moderate), and 43.7% is influenced by other variables, then the effect of LMX on work engagement with an r-square value of 0.191 indicates that the variation in work engagement values can be explained by variations in the LMX value of 19.1 and 80.9% are influenced by other variables. The effect of LMX and work engagement on job satisfaction with an r-square value of 0.359 indicates that the variation in the job satisfaction value can be explained by variations in the LMX and work engagement values of 35.9% and other variables that influence 64.1%.

**4.2.2. Hypothesis test**

Determining the path coefficient of the structural model is the purpose of this test. The objective is to examine the significance of every relationship or to test hypotheses. In this investigation, testing hypotheses is categorized into direct and indirect effects. The path coefficient images below depict the outcomes of the hypothesis test for direct and indirect effects, which were generated through data processing using the SmartPLS 4.0 program (see Figure 2).

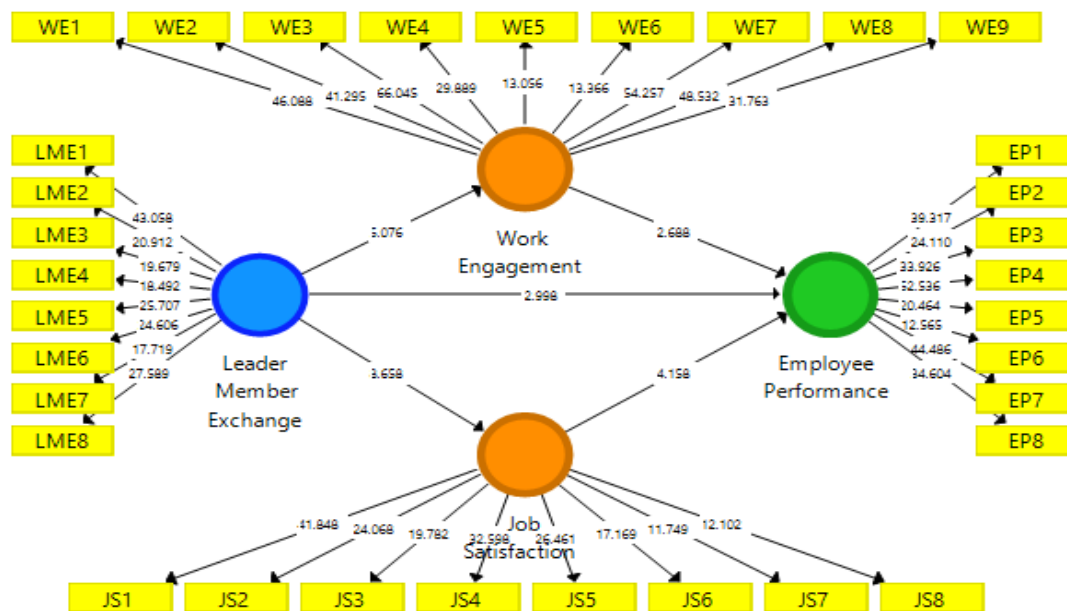


Figure 2. Path coefficient

Table 6. Direct effects

Hypothesis	Original Sample (O)	t-statistics	p-values	Decision
Leader-Member Exchange -> Work Engagement	0.437	5,076	0.000	Accepted
Leader-Member Exchange -> Job Satisfaction	0.600	8,658	0.000	Accepted
Leader-Member Exchange -> Employee Performance	0.283	2,998	0.003	Accepted
Work Engagement -> Employee Performance	0.269	2,688	0.007	Accepted
Job Satisfaction -> Employee Performance	0.371	4,158	0.000	Accepted

Source: Processed Data (2022)

Table 7. Specific indirect effects

Hypothesis	Original Sample (O)	t-statistics	p-values	Decision
Leader-Member Exchange -> Job Satisfaction -> Employee Performance	0.223	3,775	0.000	Accepted
Leader-Member Exchange->Work Engagement -> Employee Performance	0.118	2,299	0.022	Accepted

Source: Processed Data (2022)

The indirect effect between the independent variable and the dependent variable in this study can be seen in Table 7. The analysis conducted in Table 7, testing the mediation effect, revealed a statistically significant and positive relationship between leader-member exchange and employee performance when mediated by work engagement ( $t = 3.775$ ,  $p = 0.000$ ); thus, H6 is accepted, and through job satisfaction, leader-member exchange affects employee performance ( $t = 2.299$ ,  $p = 0.022$ ); thus, H7 is accepted.

The outcomes of the hypothesis test for direct influence are presented in Table 6. Table 6 shows the results of the full data set Smart PLS analysis. These results show that Leader-Member Exchange affects work engagement ( $t = 5.076$ ,  $p = 0.000$ ), job satisfaction ( $t = 8.658$ ,  $p = 0.000$ ) and employee performance ( $t = 2.998$ ,  $p = 0.003$ ). Therefore, H1, H2 and H3 are accepted. In addition, work engagement positively and significantly affects employee performance ( $t = 2.668$ ,  $p = 0.007$ ), so H4 is accepted. Furthermore, job satisfaction significantly and positively affects employee performance ( $t = 4.158$ ,  $p = 0.000$ ), so H5 is accepted.

### 4.3. Discussion

The findings from testing the first hypothesis indicate that LMX has a substantial and statistically significant impact on employee work engagement ( $t = 5.076$ ,  $p = 0.000$ ). LMX has a notable impact on employee work engagement. This shows that the LMX can increase employee work engagement at the Medan City Regional Tax and Retribution Management Agency, where a good relationship carried out by a leader to subordinates will affect the performance of employees. Leaders who can influence subordinates well will create good emotional or psychological feelings following the skills and expertise of the leader in managing these good relations. The findings of this study are consistent with those of prior investigations carried out by Wagner & Koob (2022), Li, Sanders & Frenkel (2012), Breevaart, Bakker, Demerouti & Heuve (2015), and Aggarwal, Chand, Jhamb & Mittal (2020), asserting that there is a significant influence between leader-member exchange and work engagement on employees.

The findings from testing the second hypothesis indicate that LMX has a substantial and statistically significant impact on job satisfaction ( $t = 8.658$ ,  $p = 0.000$ ). The LMX has a substantial impact on employee job satisfaction. This demonstrates that the LMX has the potential to enhance employee job satisfaction within the Medan City Regional Tax and Retribution Management Agency. Job satisfaction is the workforce's attitude towards their work, which arises from assessing the work situation between superiors and subordinates. This assessment can be carried out on one of his jobs, which is a sense of appreciation for achieving one of the important values in work. LMX is a reciprocal relationship that involves communication between leaders and employees through familiarity with one another, contributing to others, being loyal to each other, and having respect between individuals so that employees will be more satisfied with the work given by the leader. The results of this study are in line with the results of previous research conducted by Bitmiş & Ergeneli (2011), Fisk & Friesen (2012), and Liao, Hu, Chung & Chen (2017), showing that there is a positive and significant influence between LMX on job satisfaction.

The findings from the evaluation of the third hypothesis indicate that LMX has a favorable and substantial impact on employee performance ( $t = 2.998$ ,  $p = 0.003$ ). The LMX has a notable impact on employee performance. This demonstrates that the LMX can enhance employee performance at the Medan City Regional Tax and Retribution Management Agency. By fostering strong and high-quality leadership relationships among employees, they will become more engaged in their work, leading to an overall improvement in employee performance at the agency. The results of this study are in line with the results of previous research conducted by Prathama & Mujiati (2022), Harris, Wheeler & Kacmar (2009), Li, Sanders & Frenkel (2012), and Suharnomo & Kartika (2018) which states that LMX a positive and significant effect on employee performance.

The results of testing the fourth hypothesis show that work engagement has a positive and significant effect on employee performance ( $t = 2.668$ ,  $p = 0.007$ ). This means that work engagement has a significant effect on employee performance. This shows that with the increasing work engagement of employees, the performance of employees at the Medan City Regional Tax and Retribution Management Agency will increase. When employees carry out work engagement, namely initiative and a sense of shared responsibility owned by individual employees, it will make an important contribution to their success and the authority to decide on their work steps; in other words, High work engagement can improve employee performance at the Medan City Regional Tax and Retribution Management Agency. The results of this study are in line with the results of previous research conducted by Paliga (2022), Tisu, Lupsa, Virga & Rusu (2020), and Li, Leung & Li (2021), which states that work engagement has a significant positive effect on employee performance.

The results of testing the fifth hypothesis show that job satisfaction has a positive and significant effect on employee performance ( $t = 4.158$ ,  $p = 0.000$ ). This means that job satisfaction has a significant effect on employee performance. This shows that with increasing job satisfaction of employees of the Medan City Regional Tax and Retribution Management Agency, employee performance will increase where job satisfaction will be reflected in positive emotional feelings or attitudes that come from a person's work experience, as well as aspects in his work. Suppose the employee is satisfied with his work. In that case, the employee will feel happy and free from pressure so that there will be a sense of security to continue working in his work environment. and affects employee performance so that the employee will work harder and employee performance will increase. The results of this study are supported by previous research conducted by Goetz & Wald (2022), Wayoi, Margana, Parsojo & Habibi (2021), and Kim & Choi (2018), which show that job satisfaction has a positive effect on employee performance.

The results of testing the third hypothesis show that LMX has a positive and significant effect on employee performance through work engagement ( $t = 3.775$ ,  $p = 0.000$ ). This means that the LMX has a significant effect on employee performance through work engagement. This shows that the LMX can improve employee performance through work engagement at the Medan City Regional Tax and Retribution Management Agency, where a leader can direct subordinate employees. A good relationship between leaders and subordinates can affect the atmosphere in the workplace. A good relationship between leaders and subordinates will make an employee carry out an activity if it is considered a role that will be an additional role without seeing any reward. Employee work engagement behavior can be demonstrated by doing additional work if needed by the leader, helping to participate in solving problems, and feeling responsible for the work. Work engagement can arise from the volunteerism of an employee then what is felt by the employee can thus influence employees to be more serious in completing their work so that employee performance will increase. The results of this study are in line with the results of previous research conducted by Chaurasia & Shukla (2013) and Sepdiningtyas & Santoso (2017), validating that LMX has a positive influence on employee performance through employee work engagement.

The results of testing the third hypothesis show that the LMX has a positive and significant effect on employee performance through job satisfaction ( $t = 2.299$ ,  $p = 0.022$ ). This means that the LMX significantly affects employee performance through job satisfaction. This shows that the LMX can improve employee performance through employee job satisfaction at the Regional Tax and Retribution Management Agency, where a leader can provide direction to his subordinate employees. Creating a good relationship between leaders and subordinates can affect the atmosphere in the workplace. A good relationship between leaders and subordinates will make an employee carry out an activity if it is considered a role that will be an additional role without seeing any reward. Someone will feel passionate about working and satisfied with the work done. If the level of employee job satisfaction looks high enough, then the employee's performance will be optimal. Employee performance plays an important role because the progress or decline of the organization depends on employee performance. Job satisfaction is considered to be closely related to employee performance in agency organizations. This suitability means that employees will be satisfied with what employees feel, thereby increasing employee job satisfaction. Employees will be more serious about completing their work, so that employee performance will increase. The results of previous research conducted by employees will be more serious about completing their work so that employee performance will increase. The results of previous research conducted by employees will be more serious about completing their work so that employee performance will increase. The results of previous research conducted by Suharnomo & Kartika (2018), Wulandari et al. (2020), and Supriyanto, Ekowati, Reza & Mitasari (2021), showing that LMX influences employee performance through employee job satisfaction.

## 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Based on the results of the research and discussion previously stated, it can be concluded directly that LMX, work engagement, and job satisfaction have a significant effect on employee performance, the LMX has a significant effect on work engagement, the LMX has a significant effect on job satisfaction, and indirectly, work engagement mediates the effect of LMX on employee performance and job satisfaction can mediate the effect of LMX on employee performance at the Medan City Regional Tax and Retribution Management Agency office.

Based on the conclusions, the suggestions that can be given in this study are leaders should continue to try to improve and maintain LMX in employees well in order to create a sense of professional respect in

employees towards leaders by increasing the competence and knowledge of leaders in their work. In addition, leaders must improve the quality of good leadership by attending training and workshops related to leadership. To increase employees' work engagement on the tasks given by the leader to subordinates, it is better if the leader communicates with individual employees to create an emotional relationship, not only a professional sense and should conduct socialization before giving new tasks to subordinate employees. In the future, the leader of the Medan City Regional Tax and Retribution Management Agency office should provide training and workshops for subordinate employees. This approach will increase employee confidence in carrying out the new tasks assigned, feel enthusiastic when getting new tasks assigned by a leader, and increase employee cooperation with each other. The leader of the Medan City Regional Tax and Retribution Management Agency office should pay attention to the job satisfaction of employees by providing rewards for achieving performance, giving awards for those who have good performance, providing promotions and providing opportunities for career development. For further researchers, it is better to increase the number of independent variables that are still based on human resources other than those used in this study while still based on further research.

This study is subject to various limitations, one of which is that it was only attempted and conducted using scientific methodologies. However, its limitations remain: to commence, this research employs a solitary independent variable, specifically LMX. Hence, it is recommended that forthcoming investigations incorporate independent variables to enhance the precision and robustness of the hypotheses established in prior research. Consequently, it can furnish a comprehensive depiction of the subject matter that mirrors an array of additional determinants that impact employee performance, job satisfaction, and work engagement. The second limitation of this study is its small sample size, which restricts the applicability of the results. Hence, it is advisable to augment the sample size in anticipation of potential occurrences so that the additional data can serve as a contingency plan to ensure the minimum number of respondents is obtained.

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