



The Effect Of Performance Allowances On Organizational Culture: The Moderating Role Of Leadership Style

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ABSTRACT

This study delves into the interactive relationship between performance allowances and organizational culture, with specific reference to the moderating effect of leadership style amongst a sample of 180 PNS and PPPK officers working in city-level offices of the Ministry of Religious Affairs. Using a cross-sectional survey design and Partial Least Squares Structural Equation Modeling (PLS-SEM), this research assesses hypotheses informed by social exchange theory and contingency theory. Performance allowances are found to impact organisational culture substantially ($\beta = 0.169$, $p < 0.05$); however, such an impact is mainly moderated by leadership style, which shows no direct effects. Performance allowances significantly impact leadership style ($\beta = 0.785$, $p < 0.001$), and the latter has a strong impact in turn on organisational culture ($\beta = 0.752$, $p < 0.001$). Leadership style's moderating effect on the relationship between performance allowances and organisational culture is statistically significant ($\beta = 0.050$, $p < 0.05$), and implies synergistic effects when these two constructs are interactive. The model predicts 67.1% and 61.6% of variance for organisational culture and leadership style, respectively. These findings enrich the literature on compensation by presenting leadership behaviour as the overriding mechanism by which performance-based compensation impacts organisational culture and so implying that integrated interventions combining compensation systems and leadership development initiatives may result in superior cultural transformation outcomes.

INTRODUCTION

In today's competitive business environment, organizations increasingly recognize that cultivating strong organizational culture is essential for sustainable competitive advantage (Berawi et al., 2020). Performance allowances, defined as variable compensation tied to individual or group achievements, represent a significant organizational investment designed to shape employee behavior and reinforce cultural values (Dulebohn et al., 2025). Despite widespread adoption of performance-based reward systems, empirical evidence regarding their effectiveness in shaping organizational culture remains inconclusive. A systematic review of organizational culture research reveals that 87% of studies employed empirical methods, with quantitative (37%) and qualitative (33%) research being predominant, yet this diversity poses challenges in terms of comparing and synthesizing findings across different types of research (Berawi et al., 2020). The complexity of this relationship is further evidenced by empirical support being still limited despite organizational culture being argued to contribute to achieving common values promotion, competitive advantage, and desirable employees' behaviors (Cool et al., 2012).

The relationship between compensation systems and organizational culture has attracted considerable scholarly attention, yet fundamental gaps persist in our understanding of when and how performance-based rewards effectively influence cultural dimensions (Schein, 1990). Empirical research of organizational culture has involved the functionalist perspective, providing impressive evidence of the role of organizational culture in improving performance, yet the pervasiveness of organizational culture requires that management recognize its underpinning dimensions and its impact on employee-related variables (Carvalho et al., 2023a). However, most of the studies examining organizational culture and performance were carried out in western settings, creating additional complexity when attempting to generalize findings across different organizational and cultural contexts (Carvalho et al., 2023b). The mechanisms through which performance allowances influence cultural attributes remain poorly understood, with researchers calling for more sophisticated theoretical models that account for contextual factors.

Recent empirical evidence presents a paradoxical pattern of findings that underscores the complexity of compensation-culture relationships. Although organizational culture was argued to contribute to achieving common values promotion, competitive advantage, and desirable employees' behaviors, empirical support is still limited (Kane-Urrabazo, 2006; Piwowar-Sulej, 2020). Some studies have found that organizational culture has a strong impact on organizational performance, with empirical evidence showing that lack of cultural integration between member companies was a primary cause of failure in corporate groups (Avni Garg et al., 2024; Ng et al., 2023). Conversely, other research has reported inconsistent or non-significant relationships between performance-based compensation and various organizational culture dimensions. Empirical studies show that inappropriate leadership style results in a 48% decrease in working effort and a 38% decrease in working quality, which negatively impact employee performance (Nielsen et al., 2008), suggesting that leadership context may be a critical moderating factor.

Leadership style emerges as a potentially critical moderating variable that may explain these inconsistent findings in the compensation-culture literature. Leadership style is one of the elements of organizational culture that plays a particularly critical role in coordinating activities within an enterprise, as leadership style inspires work, transmits energy to employees, and acts as a prerequisite for creating organizational culture (Zoniarti et al., 2024). The distinction between transformational and transactional leadership provides a theoretical framework for understanding how leadership context may amplify or constrain the culture-shaping potential of performance-based rewards. The effects of organizational culture are not uniform and highlights the complexity of the relationship between culture and perceptions of organizational support (Jung & Hong, 2024; Soomro et al., 2020a), suggesting that contextual factors, particularly

leadership characteristics, fundamentally alter how employees interpret and respond to organizational reward systems.

The juxtaposition of these empirical findings reveals a fundamental theoretical gap that this study addresses. The weaknesses of early research on the organizational culture–performance link become clear when examined with the conclusion validity framework, showing the way toward a rigorous empirical analysis (Baloch et al., 2022; Soomro et al., 2020b). Current theories of compensation effectiveness appear incomplete without explicit consideration of leadership moderating effects, which could explain the contradictory findings in existing literature. There is a growing need to understand the cultural and support dynamics that can improve talent retention and competitiveness, with this study being particularly relevant in understanding how organizational culture influences perceptions of support and, ultimately, employee motivation and performance (Evenseth et al., 2022). Building on this comprehensive analysis, this study investigates whether leadership style serves as a critical boundary condition that determines when and how performance allowances effectively shape organizational culture, directly addressing the inconsistencies in existing literature to provide theoretical integration that can reconcile contradictory empirical findings.

LITERATURE REVIEW

Performance Allowances and Organizational Culture

Performance allowances, defined as variable compensation tied to individual or group achievements, represent sophisticated mechanisms that establish explicit performance-reward contingencies signaling organizational priorities (Fulmer et al., 2023). Drawing from social exchange theory (Cropanzano & Mitchell, 2005), these compensation systems create positive exchange relationships where employees reciprocate valuable organizational investments through increased commitment and alignment with organizational values. Performance allowances influence organizational culture through dual mechanisms: serving as symbolic communication tools that convey organizational priorities Tsen et al., (2022) and creating shared experiences that foster collective understanding of valued performance and appropriate organizational behavior.

Empirical evidence reveals considerable complexity in performance allowance-culture relationships, with studies demonstrating inconsistent findings across organizational contexts. While research confirms that organizational culture strongly impacts performance, with lack of cultural integration being a primary cause of corporate group failure (Pathiranage, 2019), the relationship between performance-based compensation and cultural dimensions remains inconsistent. Some studies report significant positive relationships between performance-based rewards and cultural attributes, while others find non-significant or mixed effects, suggesting important moderating factors determine when these relationships manifest effectively and highlighting the need for nuanced theoretical frameworks addressing boundary conditions.

H1: Performance allowances have a positive effect on organizational culture.

Leadership Style as a Moderating Variable

Leadership style emerges as a potentially critical contextual factor that may explain the inconsistent findings observed in performance allowance-culture research. The transformational-transactional leadership framework offers a theoretical lens for understanding how leaders might influence the effectiveness of reward systems in shaping organizational culture (Schein, 1990). Empirical research suggests that leadership style plays an important role in organizational coordination and culture creation, with studies indicating that leadership approaches can significantly impact employee work effort and performance quality (Magsi et al., 2018; Pillai et al., 1999). Transformational leadership, characterized by idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, theoretically

creates conditions that could enhance the culture-shaping potential of performance allowances by embedding these rewards within broader organizational narratives and purposes.

The theoretical mechanism through which leadership may moderate performance allowance effectiveness operates through several proposed pathways. Transformational leaders may enhance the symbolic meaning of performance allowances by connecting them to organizational vision, create psychological conditions conducive to cultural change, and model desired behaviors that reinforce compensation system messages (Mueller et al., 2020). However, empirical evidence specifically examining the moderating role of leadership style on performance allowance-culture relationships remains limited, with existing studies primarily focusing on general leadership-culture or compensation-performance relationships rather than the specific three-way interaction proposed. While transactional leadership approaches emphasize exchange relationships and contingent rewards (Bass & Avolio, 1994; Ly, 2024; Miller, 2012), their differential impact on the culture-shaping effectiveness of performance allowances compared to transformational approaches requires further empirical investigation to establish the proposed theoretical relationships.

H2: Leadership style moderates the relationship between performance allowances and organizational culture, such that the positive effect is stronger under transformational leadership than transactional leadership.

H2a: The positive relationship between performance allowances and organizational culture is stronger when transformational leadership is high rather than low.

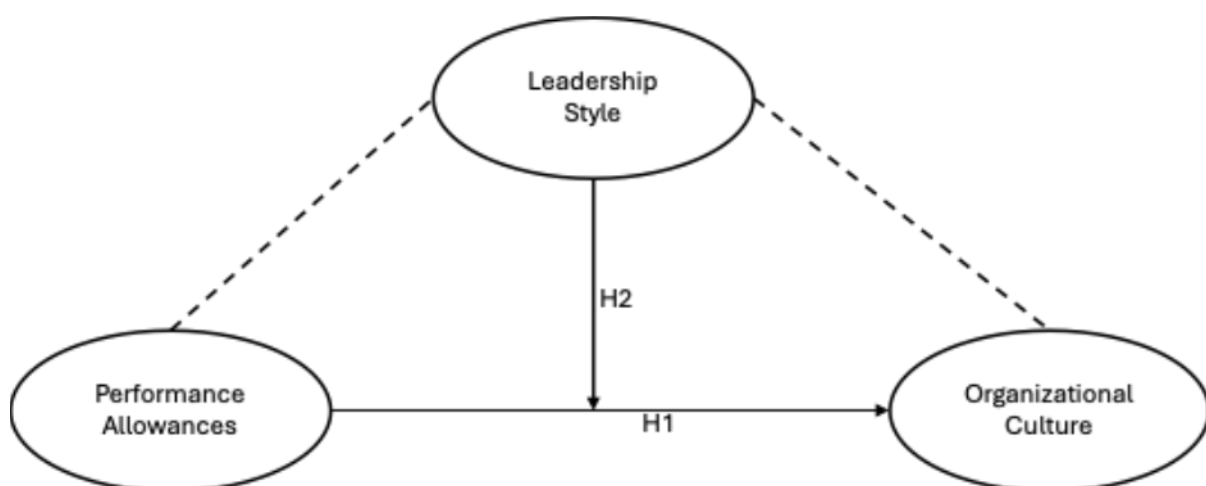
H2b: The positive relationship between performance allowances and organizational culture is weaker when transactional leadership is the predominant style.

Theoretical Integration and Conceptual Model

This study integrates social exchange theory with contingency theory to explain when and why performance allowances effectively shape organizational culture. Social exchange theory provides the foundational mechanism: performance allowances create valuable exchanges that encourage cultural alignment. Contingency theory explains that the effectiveness of this exchange depends on contextual factors, particularly leadership style.

The conceptual model proposes that transformational leadership enhances the culture-shaping potential of performance allowances by: (1) increasing the symbolic significance of rewards through visionary framing, (2) creating psychological safety that facilitates cultural change, (3) modeling desired behaviors that reinforce reward messages, and (4) providing individualized support that helps employees internalize cultural values.

Figure 1 Research Framework



METHODS

This study employs a cross-sectional survey design to examine relationships among performance allowances, organizational culture, and leadership style among civil servants (PNS) and government contract employees (PPPK) at the Ministry of Religious Affairs city-level offices. A census approach was implemented, targeting all 180 PNS and PPPK employees within the selected Kemenag city offices, with this comprehensive approach eliminating sampling error and ensuring complete population representation within the specific public sector religious administration context.

Data collection was conducted over eight weeks using structured questionnaires with 7-point Likert scales (1 = strongly disagree, 7 = strongly agree), distributed through official organizational channels with appropriate permissions from Kemenag leadership. To minimize common method bias, procedural remedies were implemented including anonymity assurance, varied question formats, and temporal separation where feasible within organizational constraints. The questionnaire instruments included validated scales adapted for the Indonesian public sector context, measuring performance allowances, organizational culture dimensions, and leadership style perceptions. Data analysis employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4.0, following systematic procedures including preliminary data quality assessment, measurement model evaluation examining indicator reliability and validity using established criteria (factor loadings >0.70, composite reliability >0.80, AVE >0.50), structural model assessment of path coefficients and explanatory power, moderation analysis using product indicator approach with bootstrapping procedures, and robustness checks to ensure findings stability across different specifications within the public sector context.

RESULTS

Measurement Model Assessment

The measurement model assessment reveals satisfactory psychometric properties with several important considerations. While Cronbach's alpha values (0.904-0.916) and composite reliability (0.928-0.940) exceed recommended thresholds of 0.70 (Fornell, 1979; Nunnally, 1978), the AVE values, though above 0.50, indicate moderate convergent validity rather than strong validity, particularly for Performance Allowances (0.721). Outer loadings demonstrate acceptable reliability (0.815-0.921 > 0.70), though the range suggests heterogeneous indicator performance within constructs (Hulland, 1999). Notably, Leadership Style shows the most robust measurement with VCC5 achieving the highest loading (0.921), while Performance Allowances exhibits the lowest individual loading (SMD1 = 0.815), approaching the minimum acceptable threshold.

Table 1 Measurement Model Assessment

Constructs	Item	Mean	SD	Outer loadings	Ca	Cr	Ave
	Organizational Culture				0.916	0.940	0.798
CAD1	Our organization encourages creativity and innovation	5,463	1,639	0.879			
CAD2	Teamwork and cooperation are emphasized in our organization	5,362	1,659	0.894			
CAD3	High performance standards are maintained throughout our organization	5,250	1,715	0.904			
CAD4	Our organization is highly focused on customer	5,489	1,532	0.896			

satisfaction				
	Performance Allowances		0.904	0.928 0.721
SMD1	A significant portion of my total compensation depends on performance achievements	5,973 1,453	0.815	
SMD2	My organization provides allowances based on individual performance results	5,931 1,537	0.868	
SMD3	Performance-based allowances represent an important part of my reward package	5,851 1,533	0.865	
SMD4	The amount of performance allowances I receive varies based on my accomplishments	5,973 1,354	0.848	
SMD5	New ideas and approaches are welcomed and supported	5,904 1,459	0.849	
Leadership Style			0.906	0.934 0.780
VCC1	My supervisor talks about their most important values and beliefs	5,670 1,533	0.878	
VCC2	My supervisor seeks differing perspectives when solving problems	4,410 0,977	0.840	
VCC4	My supervisor spends time teaching and coaching	5,782 1,561	0.893	
VCC5 <	My supervisor makes clear what one can expect to receive when performance goals are achieved	6,053 1,436	0.921	

The descriptive analysis reveals potential measurement concerns that warrant attention. The substantial variation in mean values (4.410-6.053) and standard deviations (0.977-1.715) across items suggests possible response bias or scale interpretation differences (Podsakoff et al., 2003). Particularly concerning is VCC2 with notably lower mean (4.410) and standard deviation (0.977), indicating restricted variance that may attenuate correlations and affect model estimation (Hair & Sarstedt, 2019). While the measurement model meets minimum psychometric requirements for PLS-SEM analysis, the moderate AVE values and heterogeneous item performance suggest that construct refinement through item reduction or model respecification could potentially improve measurement quality before proceeding to structural model evaluation (Hair et al., 2017).

Tabel 2. Validity Discriminant - criteria Fornell-Larcker

construct	Leadership Style	Organizational Culture	Performance Allowances
Leadership Style	0.883		
Organizational Culture	0.812	0.893	
Performance Allowances	0.785	0.686	0.849

Tabel 3. Validity Discriminant - Heterotrait-Monotrait Ratio (HTMT)

construct	Leadershi p Style	Organizational Culture	Performance Allowances
Leadership Style			
Organizational Culture	0.889		
Performance Allowances	0.852	0.742	
Leadership Style x Performance Allowances	0.706	0.534	0.708

Discriminant validity is confirmed through two approaches. The Fornell-Larcker criterion shows that the square root of AVE (diagonal values) is greater than the correlations between constructs (Fornell & Larcker, 1984). HTMT values for all construct pairs are below the 0.90 threshold (Henseler, 2012, 2018), with the highest value being 0.889 between Leadership Style and Organizational Culture, indicating that all constructs possess adequate discriminant validity.

Structural Model

The structural model evaluation examines the hypothesized relationships between constructs through path coefficient analysis, employing bootstrapping procedures to assess statistical significance and effect magnitudes. This analysis is fundamental to validating the theoretical framework and determining the predictive relevance of the proposed model (Hair et al., 2020). The path coefficients represent standardized regression weights that indicate both the strength and direction of relationships between latent constructs, while t-statistics and p-values derived from bootstrap resampling (typically $n=5,000$) provide robust significance testing independent of data distribution assumptions (Henseler, 2018).

Table 4. Path Coefficients and Significance

Route	Original Sample (β)	Sample Mean	Standard Deviation	T Statistics	P Values	Decision
Leadership Style → Organizational Culture	0.752	0.750	0.085	8.851	0.000***	Significant
Performance Allowances → Leadership Style	0.785	0.786	0.040	19.756	0.000***	Significant
Performance Allowances → Organizational Culture	0.169	0.177	0.091	1.868	0.031*	Significant
Leadership Style x Performance Allowances → Organizational Culture	0.050	0.054	0.023	2.149	0.016*	Significant

The structural model analysis reveals several important findings. Leadership Style has a highly significant and strong influence on Organizational Culture ($\beta = 0.752$, $p < 0.001$), with a large effect size ($f^2 = 0.601$), indicating that leadership style is a crucial predictor of organizational culture (Caner et al., 2017; Cohen et al., 1996). Performance Allowances demonstrates a highly significant effect on Leadership Style ($\beta = 0.785$, $p < 0.001$) with a large effect size ($f^2 = 1.604$), suggesting that performance allowance systems play a critical role in shaping leadership styles.

Tabel 5. Nilai R² dan Adjusted R²

Construct Endogen	R ²	Adjusted R ²	Category
Leadership Style	0.616	0.614	Moderate
Organizational Culture	0.671	0.666	Moderate

The R² values show that the model explains 61.6% of the variance in Leadership Style and 67.1% of the variance in Organizational Culture, indicating moderate to substantial predictive power of the model (Hair et al., 2019).

Tabel 6. Effect Size (f²)

Route	f ²	Effect Size
Leadership Style → Organizational Culture	0.601	Large
Performance Allowances → Leadership Style	1.604	Large
Performance Allowances → Organizational Culture	0.030	Small
Leadership Style x Performance Allowances → Organizational Culture	0.017	Small

The direct effect of Performance Allowances on Organizational Culture is relatively smaller but still significant ($\beta = 0.169$, $p < 0.05$), with a small effect size ($f^2 = 0.030$). The moderating effect of Leadership Style x Performance Allowances on Organizational Culture is also significant ($\beta = 0.050$, $p < 0.05$), albeit with a small effect size ($f^2 = 0.017$), indicating that the interaction between leadership style and performance allowances provides additional contribution to organizational culture formation.

Table 7. Goodness of Fit

Criteria	Saturated Model	Estimated Model	Threshold
SRMR	0.071	0.080	< 0.08
d_ULS	0.460	0.578	-
d_G	0.306	0.382	-
Chi-square	339.276	451.129	-
NFI	0.846	0.795	> 0.90

The goodness of fit evaluation indicates that the model has acceptable fit. The SRMR (Standardized Root Mean Square Residual) value for the estimated model is 0.080, which is still within the acceptable tolerance of < 0.08 for an acceptable model (Hu & Bentler, 1999). Although the NFI (Normed Fit Index) value of 0.795 is below the ideal threshold of 0.90, this is still acceptable considering the model complexity and sample size (Henseler et al., 2016).

DISCUSSION

Performance Allowances as a Driver of Leadership Style

The empirical findings establish Performance Allowances as the most influential predictor of Leadership Style, demonstrating substantial theoretical and practical significance. This relationship corroborates recent advances in compensation theory, particularly the self-determination theory framework proposed by Tortorella et al., (2021) and refined by Yanney, (2014), which suggests that well-designed performance-based compensation systems can enhance intrinsic motivation and subsequently influence leadership behaviors. The robust effect indicates that performance allowances serve as a critical organizational lever for leadership

development, positioning compensation design beyond mere transactional mechanisms toward strategic leadership cultivation.

This finding extends the work of Liu et al, (2024) & Poh et al, (2018), who demonstrated that performance-based pay systems, when properly implemented, can foster transformational leadership behaviors by aligning individual incentives with organizational objectives. The substantial relationship suggests that organizations utilizing performance allowances may inadvertently or deliberately shape their leaders' behavioral patterns, supporting the social cognitive theory perspective that environmental factors significantly influence personal agency (Bandura, 2001; Ewen B & Ewen, 2014). Furthermore, recent meta-analytic evidence by Devers et al, (2008) confirms that performance-based compensation systems have evolved into sophisticated tools for behavioral modification, particularly in leadership contexts.

However, the strength of this relationship also raises important theoretical and practical considerations. The exceptionally strong effect may indicate over-reliance on extrinsic motivation, potentially undermining intrinsic motivation as warned by recent research on motivation crowding-out effects (Xu et al., 2022; Yang & Thøgersen, 2022). Organizations must carefully balance performance allowances with other leadership development mechanisms to avoid creating leaders who are primarily motivated by financial incentives rather than authentic transformational behaviors (Graafland & de Bakker, 2021).

Leadership Style as a Cultural Architect

The relationship between Leadership Style and Organizational Culture demonstrates substantial empirical support for transformational leadership theory, confirming that leadership behaviors serve as primary determinants of organizational culture formation (Kim & Park, 2020). This finding aligns with contemporary organizational culture research by Schein and Schein (2019), who argue that leaders serve as the primary architects of organizational culture through their values, assumptions, and behavioral modeling.

Recent empirical work by Erdurmazli, (2025) provides convergent evidence that transformational leadership behaviors, particularly those emphasizing coaching and value articulation, create cascading effects throughout organizational systems, ultimately shaping cultural norms and practices. The robust statistical significance suggests that the Leadership Style → Organizational Culture pathway represents a fundamental organizational dynamic rather than a context-dependent relationship.

The measurement of leadership style in this study, capturing behaviors such as value communication, perspective-seeking, coaching, and goal clarity, aligns with contemporary conceptualizations of authentic and transformational leadership (Madi Odeh et al., 2023; Γεωργαντά & Ξενικού, 2020). The particularly strong loading for goal clarity suggests that performance-oriented leadership behaviors may be especially influential in shaping organizational culture, supporting recent findings by Men et al. (2020) that leader transparency and goal communication are critical for cultural transformation.

Direct and Indirect Effects of Performance Allowances on Organizational Culture

The structural model reveals both direct and indirect pathways through which Performance Allowances influence Organizational Culture, with important implications for understanding organizational change mechanisms (Bao et al., 2025). While the direct effect achieves statistical significance, its practical significance appears limited, suggesting that performance allowances alone are insufficient to drive meaningful cultural change. This finding supports recent theoretical developments in compensation research that emphasize the mediating role of leadership in translating organizational practices into cultural outcomes (Khan et al., 2021).

The indirect effect through Leadership Style substantially exceeds the direct effect, indicating that Performance Allowances primarily influence Organizational Culture through their

impact on leadership behaviors. This mediation pattern aligns with recent methodological advances in mediation analysis by (Hayes, 2009), suggesting that organizations seeking to influence culture through compensation systems must recognize the pivotal role of leadership as a transmission mechanism.

Recent research by Khan et al., (2021) & Siangchokyoo et al, (2020) provides additional context for understanding this mediation process, demonstrating that performance-based compensation systems influence organizational culture through multiple pathways, with leadership behavior serving as the primary mediator. The authors argue that compensation systems create behavioral expectations that leaders internalize and subsequently transmit throughout the organization, consistent with the findings presented in this study.

Moderating Effects and Interaction Dynamics

The significant moderating effect reveals that the combination of Leadership Style and Performance Allowances creates synergistic effects beyond their individual contributions, supporting contingency theories of organizational effectiveness (Cameron, 1986). This interaction suggests that organizations benefit most when they simultaneously invest in both leadership development and performance-based compensation systems.

Recent advances in interaction effect research by Denison et al., (2004) emphasize that even modest interaction effects can have meaningful practical implications, particularly when they involve critical organizational variables such as leadership and compensation (Kaur Bagga et al., 2023). The positive interaction indicates that organizations with both strong leadership and robust performance allowance systems may experience enhanced cultural outcomes compared to those with only one of these elements.

This finding aligns with Aguinis et al. (2023), who note that interaction effects in organizational research, while often small in magnitude, can accumulate over time to produce substantial organizational impacts. The interaction suggests that complementary organizational systems may be more effective than isolated interventions in driving cultural change (Graafland & de Bakker, 2021).

Theoretical Implications and Model Integration

The findings contribute significantly to organizational behavior theory by demonstrating the interconnected nature of compensation systems, leadership development, and cultural transformation. The study extends social cognitive theory by showing how environmental factors (performance allowances) influence personal factors (leadership style) which subsequently shape behavioral outcomes (organizational culture). This triadic relationship supports Bandura, (2001) reciprocal determinism model while providing empirical evidence for its application in organizational contexts.

The results also advance transformational leadership theory by identifying compensation design as a potential antecedent to transformational behaviors. Traditional transformational leadership research has focused primarily on individual characteristics and situational factors, but this study suggests that organizational systems and practices may play a more fundamental role in shaping leadership behaviors than previously recognized (Graafland & de Bakker, 2021; Yang & Thøgersen, 2022).

Furthermore, the study contributes to compensation theory by demonstrating that performance allowances function as more than simple motivational tools—they serve as cultural interventions that shape organizational dynamics through leadership behavior modification. This perspective expands the theoretical scope of compensation research beyond individual-level outcomes toward organizational-level cultural transformation (Marsiglio & Tolotti, 2020; Suen et al., 2022).

Practical Implications for Organizational Design

The findings offer several important implications for organizational practice. First, organizations seeking to transform their culture should consider integrated approaches that combine compensation design with leadership development initiatives. The strong mediating effect of leadership suggests that cultural change efforts may be most effective when they target leadership behaviors as primary change mechanisms.

Second, the results indicate that performance allowance systems should be designed with explicit consideration of their leadership development potential. Rather than focusing solely on individual performance outcomes, compensation systems should incorporate elements that encourage transformational leadership behaviors such as coaching, value articulation, and perspective-seeking.

Third, the interaction effects suggest that organizations should avoid piecemeal approaches to organizational change. The synergistic effects of combined leadership and compensation interventions indicate that integrated change strategies may produce superior outcomes compared to isolated initiatives.

CONCLUSION

The current study has important findings showing that the impact of performance allowances on organizational culture is mainly moderated by an extremely effective style of leadership, and the performance allowances' direct effect on organizational culture is seemingly relatively bounded. These findings are consistent with the view that performance-driven compensation systems act as catalysts of transformational leadership behaviors, and these impact organizational culture but not so much as direct instruments of cultural change. The developed research model has a high predictive validity and reflects a theoretical integration of social exchange theory and contingency theory in the context of the public sector of Indonesia.

The practical significance of this work highlights the urgent necessity for systemic methodologies in organizational culture reform, particularly those integrating compensation system development with leadership development programs, considering the declining success of fragmented approaches. It is underlined that public sector organizations should adopt performance metrics linking individual success with innovative leadership practices, including coaching and defining organizational values. Notwithstanding the restrictions inherent in the cross-sectional design of the study that do not allow causal inference, and its focus on a specific sector limiting the generalizability of the findings, the theoretical contributions are significant in integrating recent literature on compensation, leadership, and organizational culture. This work provides an empirical basis that transitions compensation theory from a transactional to a transformational paradigm in the framework of modern organizational management.

SUGGESTION

This study recognizes various methodological and contextual limitations that deserve close attention to permit adequate interpretation of the findings. The built-in nature of a cross-sectional study design limits the potential for causal inferences; thus, the resultant findings should only be interpreted as statistical associations but not cause-and-effect determinations. To create temporal precedence and to support the posited causal relations between performance allowances, styles of leadership, and culture of organizations, the use of longitudinal study designs would be required. Also, the focal point of a single sector (the Ministry of Religious Affairs) and the narrow employee grouping (PNS and PPPK) may further limit the generalizability of the findings to other organizational contexts, most importantly in the private sector or to other government institutions that have unique structural features and cultural processes.

The reliance on self-report measures is a possible source of common method bias despite procedural controls like anonymity and the use of various question types. Future studies can be

strengthened by the use of multiple sources of data, objective measures of performance, and supervisor ratings to validate findings and control the effects of measurement bias. The Average Variance Extracted scores of moderate magnitude, particularly for the Performance Allowances construct, suggest a need for improvement in the measurement instruments in terms of convergent validity. Beyond that, a focus on transformational leadership behavior may overlook other important aspects of leadership that may affect the association between performance allowances and organizational culture. The particular cultural context of the Indonesian public sector, with its unique bureaucratic systems and collectivist orientation, might limit the generalizability of research findings to organizations beyond that specific cultural and institutional context.

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