

Transformational Leadership, Work Stress, and Employee Performance: The Mediating Role of Work Motivation in the Financing Industry

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Abstract

Employee performance is a critical factor in determining organizational effectiveness, particularly in the financing industry, which is characterized by high performance targets and competitive work environments. This study aims to examine the effect of transformational leadership and work stress on employee performance with work motivation as a mediating variable in the financing industry. This study employed a quantitative explanatory research design using a census approach involving 70 contract employees as respondents. Data were collected through structured questionnaires and analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 4. The results indicate that transformational leadership has a positive effect on work motivation and employee performance, while work stress has a negative effect on work motivation and employee performance. Furthermore, work motivation positively affects employee performance and significantly mediates the relationship between transformational leadership and employee performance, as well as between work stress and employee performance. This study contributes theoretically by extending the application of Self-Determination Theory (SDT), Social Exchange Theory (SET), and Job Demands-Resources (JD-R) Model in explaining the mechanism through which organizational and psychological factors influence employee performance in the financing industry. Practically, this study suggests that management should strengthen transformational leadership practices, manage work stress effectively, and enhance employee motivation to improve performance.

Keywords: transformational leadership; work stress; work motivation; employee performance; financing industry.

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Introduction

Employee performance is a critical factor in determining an organization's success in achieving strategic goals and maintaining its competitiveness. Employee performance reflects an individual's work results in carrying out tasks and responsibilities in accordance with established organizational standards (Kasmir, 2019). In the financial services industry, employee performance is becoming increasingly important due to the dynamic nature of the sector, its target-oriented nature, and the high quality of customer service it demands

(Robbins & Judge, 2022). Employee performance in the financial services industry can be seen in performance data from April 2025 to March 2026, which demonstrates variations in target achievement among employees.

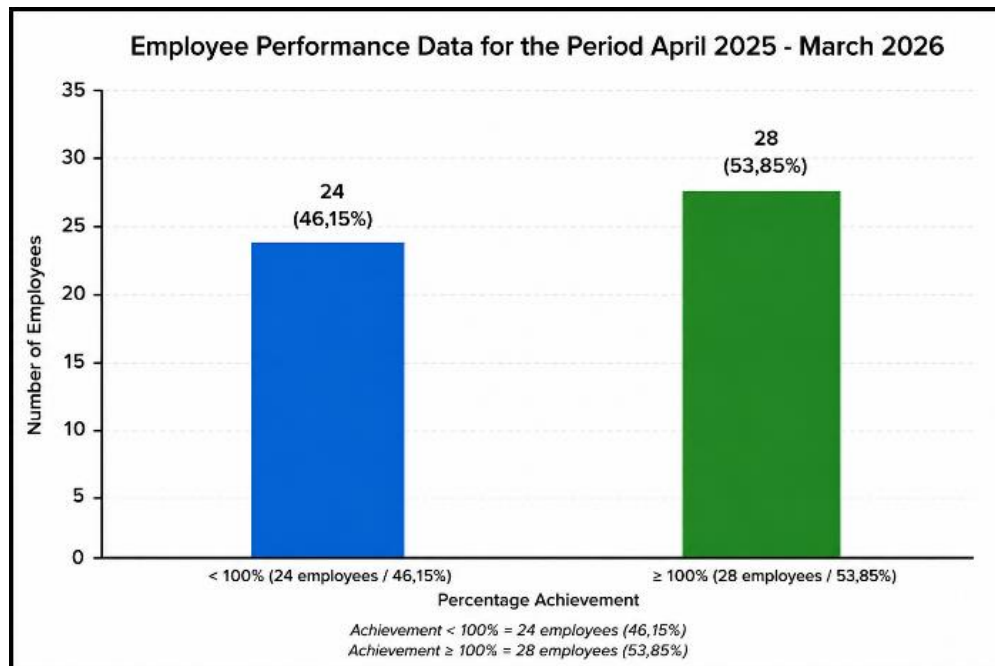


Figure 1. Employee Performance Data in the Financing Industry for the Period April 2025–March 2026

Source: Processed Data by the Researcher (2026).

Based on Figure 1, some employees are able to achieve or exceed company-set targets, while others have not achieved the expected standards. This situation indicates a performance gap, indicating that employee performance is influenced not only by individual abilities but also by organizational and psychological factors within the work environment (Robbins & Judge, 2022). Various studies have shown that employee performance is influenced by both organizational and individual factors, including leadership style, psychological work conditions, and work motivation (Helalat et al., 2025; Nanjundeswaraswamy et al., 2024). One organizational factor widely studied in the human resource management literature is transformational leadership. A transformational leadership style can improve performance by conveying a vision, individualized attention, intellectual stimulation, and inspirational motivation to employees (Thanh, 2022; Udin, 2023). Meta-analyses show that transformational leadership has a positive relationship with employee motivation, work engagement, innovation, and performance across various industrial sectors (Helalat et al., 2025).

Occupational stress is a psychological factor that has the potential to impact employee performance. High job demands, work targets, and customer service requirements can cause psychological stress that impacts productivity and work quality. The World Health Organization (2022) states that

occupational stress is a psychosocial risk that can impact employee health and productivity. In the financial services industry, the pressure of achieving targets and service demands make managing occupational stress a crucial aspect of maintaining employee performance. Work motivation acts as a psychological mechanism that explains how organizational factors and work conditions can influence employee behavior and performance. Work motivation is an internal force that directs, maintains, and enhances individual effort in achieving organizational goals (Robbins & Judge, 2022). Previous research has shown that work motivation can improve performance and strengthen the relationship between leadership factors and employee work behavior (Maringan et al., 2022). The relationship between transformational leadership style, work stress, work motivation, and employee performance has been extensively studied, but previous research still indicates a research gap. Some studies have found that work stress negatively impacts employee performance because high work pressure can reduce concentration and work productivity (Fajri & Oktiani, 2024; Putri & Suratman, 2025). Other studies have shown that work stress does not significantly impact performance because employees have different adaptation abilities when dealing with work pressure (Cay & Arbian, 2020). These differing research findings indicate that the mechanism of the relationship between work stress and employee performance requires further study, considering the role of work motivation as a mediating variable.

Previous research on transformational leadership styles, work stress, work motivation, and employee performance has been largely conducted in the education, manufacturing, healthcare, and banking sectors. Studies in the financial services industry are relatively limited, despite the specific work characteristics of this sector, including high business targets, performance pressure, risk management, and demands for fast and accurate customer service. This situation indicates a contextual gap, as research findings from other sectors have not fully explained the dynamics of employee performance in the financial services industry. This study aims to analyze the influence of transformational leadership style and work stress on employee performance with work motivation as a mediating variable in the financing industry. This study provides theoretical contributions by expanding the application of Self-Determination Theory (SDT), Social Exchange Theory (SET), and the Job Demands-Resources (JD-R) Model in explaining the relationship mechanisms between organizational factors, psychological factors, and employee performance in the context of the financing industry. This research provides implications for finance industry management to strengthen transformational leadership practices by providing support, inspiration, and employee development, as well as managing work stress through workload control and creating a supportive work environment. These efforts need to be supported by increased work motivation to enable employees to maintain productivity and optimally achieve organizational targets.

Literature Review

Social Exchange Theory

Social Exchange Theory (Blau, 1964) explains that organizational relationships are based on the principle of reciprocity. Support and positive treatment from leaders will encourage employees to respond positively through increased motivation, commitment, and performance. In this study, transformational leadership is seen as a form of organizational support that can improve employee performance.

Self-Determination Theory

Self-Determination Theory (Deci & Ryan, 2000) explains that individual motivation is influenced by the fulfillment of basic psychological needs, namely autonomy, competence, and relatedness. Fulfilling these needs can increase intrinsic motivation, which impacts employee engagement and performance. In this study, Self-Determination Theory explains the role of work motivation as a psychological mechanism linking organizational factors to performance.

Job Demands-Resources (JD-R) Model

The Job Demands-Resources (JD-R) Model (Demerouti et al., 2001) explains that working conditions consist of job demands and job resources. Work stress represents job demands, while transformational leadership style acts as a job resource that can support employee motivation and performance.

The Influence of Transformational Leadership Style on Employee Performance

Transformational leadership is a leadership style that inspires, motivates, and develops employee potential through idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass & Avolio, 1999). Based on Social Exchange Theory (SET), leader support and attention will encourage employees to make positive contributions through increased commitment and performance (Blau, 1964). Research by Helalat et al. (2025), Muafi and Ahmad (2022), and Setiawan and Ekhsan (2021) shows that transformational leadership positively influences employee performance.

H₁: Transformational leadership positively influences employee performance.

The Effect of Work Stress on Employee Performance

Work stress is a condition where job demands exceed an individual's ability to cope (Robbins & Judge, 2022). Based on the Job Demands-Resources (JD-R) Model, work stress reflects high job demands, which can lead to psychological exhaustion and reduced performance if not balanced with adequate work resources (Demerouti et al., 2001). In the finance industry, the pressure of achieving targets and service demands can increase employee work stress. Research by Fajri & Oktiani (2024) and Putri & Suratman (2025) shows that work stress negatively impacts employee performance.

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H₂: Work stress negatively impacts employee performance.

The Influence of Leadership Style on Work

Transformational leadership plays a role in increasing work motivation by providing inspiration, support, and opportunities for self-development to employees (Bass & Avolio, 1999). Based on Self-Determination Theory (SDT), fulfilling individual psychological needs in the form of autonomy, competence, and relatedness can increase employee intrinsic motivation (Deci & Ryan, 2000). Research by Maringan et al. (2022) and Suryaninggala & Wahyulina (2025) shows that transformational leadership has a positive effect on work motivation.

H₃: Leadership style has a positive effect on work motivation.

The Influence of Work Stress on Work Motivation

High levels of work stress can reduce an individual's psychological energy and drive to perform their work. The JD-R Model perspective explains that high job demands without adequate resource support can reduce employee work motivation (Bakker & Demerouti, 2017). Excessive work pressure can hinder the fulfillment of an individual's psychological needs, thereby reducing intrinsic motivation (Deci & Ryan, 2000). Research by Rahmawati & Suryani (2021) and Sari & Surya (2025) indicates a negative relationship between work stress and work motivation.

H₄: work stress negatively impacts work motivation.

The Influence of Work Motivation on Employee Performance

Work motivation is an internal drive that directs and sustains individual efforts toward achieving organizational goals (Robbins & Judge, 2022). According to SDT, highly motivated employees demonstrate greater engagement, persistence, and effort in completing work, thereby improving performance. Research by Hasana & Helmi (2023) and Ramadayanti (2026) shows that work motivation positively influences employee performance.

H₅: Work motivation positively influences employee performance.

The Mediating Role of Work Motivation in the Influence of Transformational Leadership Style on Employee Performance

Transformational leadership can improve employee performance by increasing work motivation. Based on Social Exchange Theory (SET) and Self-Determination Theory (SDT), support, inspiration, and attention provided by leaders can increase employee motivation, thereby encouraging greater effort and work achievement. Research by Suryaninggala and Wahyulina (2025) shows that work motivation mediates the relationship between transformational leadership and employee performance.

H₆: Work motivation mediates the effect of transformational leadership on employee performance.

The Mediating Role of Work Motivation in the Influence of Work Stress on Employee Performance

High levels of work stress can reduce work motivation because job pressure can reduce an individual's psychological energy and drive to work. Based on the Job Demands-Resources (JD-R) Model and Self-Determination Theory (SDT), work motivation acts as a psychological resource that helps employees cope with job demands and maintain performance. Thus, work motivation can explain the relationship between work stress and employee performance. Research by Sari and Surya (2025) shows that work motivation plays a role in explaining the relationship between working conditions and employee performance. H₇: Work motivation mediates the effect of work stress on employee performance.

This research model describes the influence between transformational leadership style, work stress, work motivation, and employee performance.

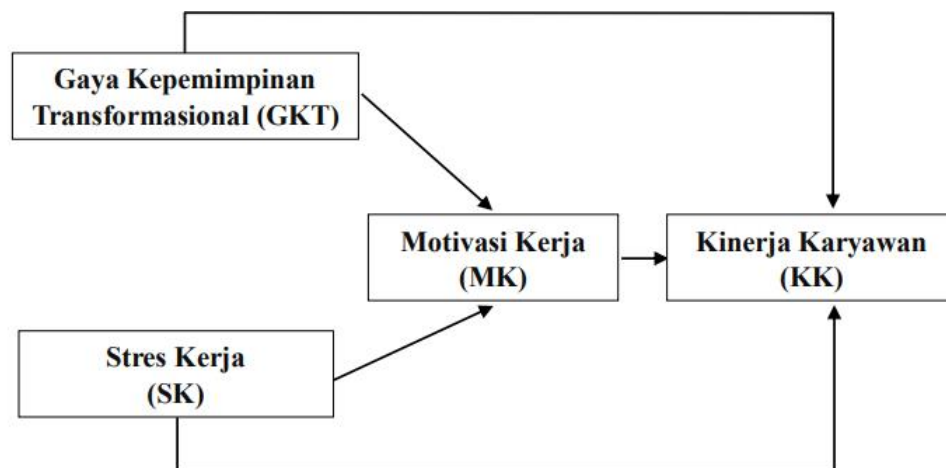


Figure 2. Research Model.

Source: Processed by the Researcher (2026).

Research Method

This study uses a quantitative approach with an explanatory research design to examine the effect of transformational leadership style and work stress on employee performance, with work motivation as a mediating variable in the financing industry. The unit of analysis is the individual, namely contract employees. The object of this study is the financing industry. The study population consisted of 70 contract employees in the financing industry. The sampling technique used saturated sampling, so that all members of the population were used as respondents. This study consists of independent variables: transformational leadership style (GKT) and work stress (SK), variable: employee performance (KK), and mediating variable: work motivation (MK). Testing for mediation effects refers to the classification of complete mediation, partial mediation, no mediation, and no-effect non-mediation based on the significance of direct and indirect influences. The research data are

primary data obtained through an online questionnaire distributed using Google Forms. Operational definitions of the research variables are presented in Table 1.

Table 1. Definition of Variables

No.	Variabel	Definition	Indikator	Sumber
1.	Transformational Leadership Style (GKT)	A leadership style that inspires, motivates, and develops employees potential through a clear vision, support, and individual consideration to achieve organizational goals.	1. Idealized influence 2. Inspirational motivation 3. Intellectual stimulation 4. Individualized consideration	Bass & Avolio (1999)
2.	Work Stress (SK)	A psychological condition that occurs when job demands exceed an employee's ability to cope, affecting physical, psychological, and behavioral conditions.	1. Physiological symptoms 2. Psychological symptoms 3. Behavioral symptoms	Robbins & Judge (2022)
3.	Work Motivation (MK)	An internal drive that directs, maintains, and increases individual effort in achieving organizational goals.	1. Need for achievement 2. Need for affiliation 3. Need for power	McClelland (1996)
4.	Employee Performance (KK)	The results achieved by employees in carrying out their duties and responsibilities based on organizational standards.	1. Work quality 2. Work quantity 3. Timeliness 4. Supervision 5. Relationship among employees	Kasmir (2019)

The research instrument used a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Transformational leadership style was measured using idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass & Avolio, 1999). Work stress was measured using physiological, psychological, and behavioral symptoms (Robbins & Judge, 2022). Work motivation was measured using need for achievement, need for affiliation, and need for power (McClelland, 1961). Employee performance was measured using work quality, work quantity, punctuality, supervision, and employee relationships (Kasmir, 2019). Data analysis was conducted using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method with the help of SmartPLS 4. SEM-PLS was used because it is able to test the relationship between latent variables and test the mediation effect in the research model. Model evaluation was conducted through outer model and inner model testing. Outer model testing includes convergent validity, discriminant validity, and construct reliability through factor loading values, Average Variance Extracted (AVE), Composite Reliability, and

Cronbach's Alpha. Inner model testing was conducted through R^2 , Q^2 values, and hypothesis testing using the bootstrapping procedure. The hypothesis is declared accepted if the p-value is <0.05 .

Data Analysis and Results

This study used 70 contract employees in the financing industry as respondents. All members of the population were selected using a saturation sampling technique, ensuring that the data obtained represent the conditions of employees within the research context. Respondents had diverse characteristics based on gender, age, and length of service, providing a variety of data to support the analysis of the relationships between the research variables.

Table 2. Questionnaire Return Rate and Respondent Characteristics

Characteristics	Category	Amount	Persentase (%)
Gender	Female	52	74%
	Male	18	26%
Respondent's Age	< 25 Years	23	33%
	25 – 30 Years	47	67%
	31 – 40 Years	-	-
	> 40 Years	-	-
	< 1 Year	16	23%
Length of work	1 - < 3 Years	31	44%
	3 - < 5 Years	23	33%
	> 5 Years	-	-

Source: Processed by the Researcher (2026).

Based on Table 2, the return rate for all distributed questionnaires was 70 (100%) and could be processed. The respondents were predominantly female (74%), aged 25–30 years (67%), and had worked for 1–<3 years (44%). This indicates that the majority of respondents were productive-age female employees with moderate work experience.

Evaluation of Measurement Model (Outer Model) and Evaluation of Structural Model (Inner Model)

Before testing the relationships between variables, the study first ensured that all questionnaire indicators were valid and reliable. SmartPLS results showed that all indicators met the requirements for factor loading, validity, and reliability. Furthermore, the R^2 and f^2 values were used to assess the model's explanatory power and to determine the extent of influence between variables. According to the data presented in Table 3, all items in this study sample exhibited the desired factor loadings (around or above 0.70), and no significant cross-loadings between items were observed. Since the discriminant validity and convergent validity of each construct were greater than 0.70 and 0.50, respectively, they met the validity requirements outlined by (Laily et al., 2025).

Furthermore, the composite reliability for all constructs exceeded the threshold of 0.70, thus meeting the reliability criteria established by (Laily et al., 2025). The ability of the independent variables to provide almost all the information needed to predict the variation of the dependent variable, for which the R-Square value must be greater than 0.500 (Alfidella et al., 2015). Effect Size (f^2) is used to measure the magnitude of the influence of an exogenous variable on an endogenous variable in the PLS-SEM model. The f^2 value indicates the relative contribution of each construct in improving the model's predictive ability. According to Hair et al. (2019), an f^2 value of 0.02 is categorized as small, 0.15 as medium, and 0.35 as large. Thus, the f^2 test can be used to assess the strength of each variable's influence beyond its significance value.

Table 3. Validity, Reliability, and R Square, f Square, Q Square Evaluation

Variabel	Cronbach's Alpha	Composite Reliability	AVE
Gaya Kepemimpinan Transformasional (GKT)	0.968	0.97	0.578
Stres Kerja (SK)	0.923	0.934	0.544
Motivasi Kerja (MK)	0.921	0.932	0.537
Kinerja Karyawan (KK)	0.918	0.932	0.58
Dependent Variable	R-Square (R²)	Adjusted R²	
Kinerja Karyawan (KK)	0.666	0.651	
Motivasi Kerja (MK)	0.536	0.522	
f Square (f²)			
Gaya Kepemimpinan Transformasional (GKT)	0.176	0.354	
Motivasi Kerja (MK)	0.172		
Stres Kerja (SK)	0.100	0.147	
Latent Constructs	Q-Square (Q²)		
Kinerja Karyawan (KK)	0.356		
Motivasi Kerja (MK)	0.265		

Sumber: Data Primer Diolah, 2026.

Structural Model and Hypothesis Testing

After conducting convergent validity, discriminant validity, and reliability tests, the next step is hypothesis testing. The path coefficient or inner model value indicates the level of significance in hypothesis testing. Significance testing is performed using the bootstrapping method (Hudin & Riana, 2016). The validity of the indicators is analyzed using degrees of freedom (df) with the formula: $df = n - k$, where n is the number of observations (sample size) and k is the number of variables (independent and dependent) (Hudin & Riana, 2016). The number of observations in the study was 70 samples, while the number of variables studied was 4. Therefore, the result is $df = 70 - 4 = 65$. The T-table value with a 5% significance level using a two-tailed test and 65 degrees of freedom is 1.9971. The following table shows the coefficients for each

hypothetical path (Path Coefficients) and the T-Statistics values obtained from the SmartPLS bootstrapping output.

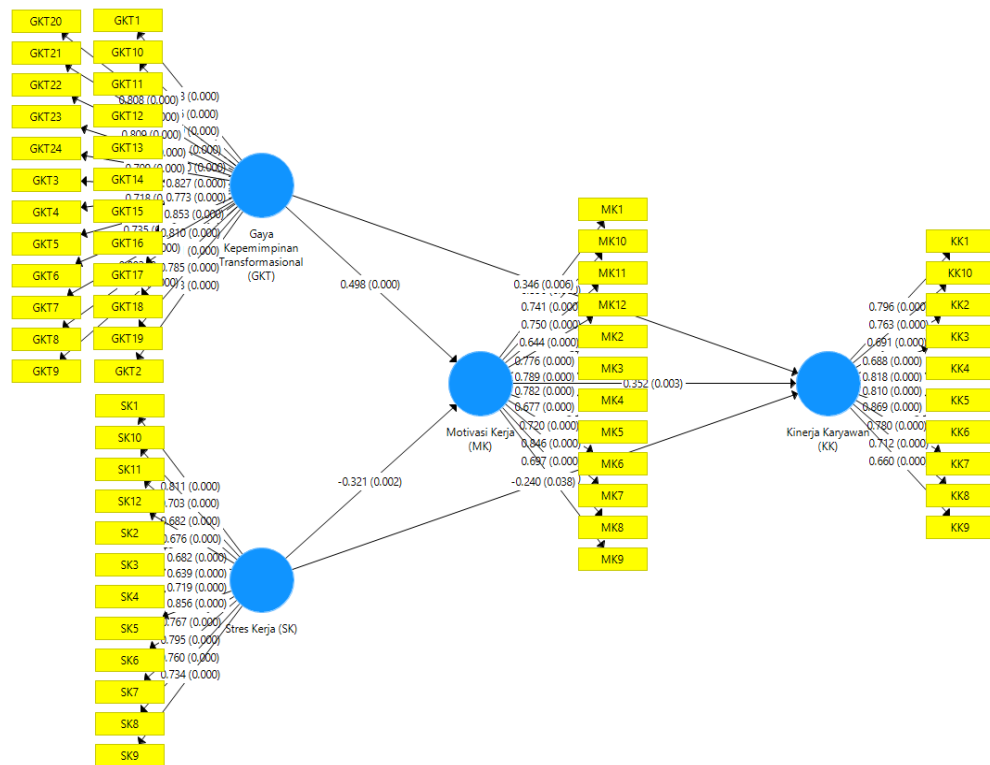


Figure 3. Structural Model (Bootstrapping)

Table 4. Direct and Indirect Effects

Hypothesis	Effect	Original Sample	T Statistics	P Values	Information
Direct Effect					
H1	Gaya Kepemimpinan Transformasional (GKT) -> Motivasi Kerja (MK)	0.498	4.992	0.000	Accepted
H2	Stres Kerja (SK) -> Motivasi Kerja (MK)	-0.321	3.097	0.002	Accepted
H3	Gaya Kepemimpinan Transformasional (GKT) -> Kinerja Karyawan (KK)	0.346	2.770	0.006	Accepted
H4	Stres Kerja (SK) -> Kinerja Karyawan (KK)	-0.240	2.086	0.038	Accepted
H5	Motivasi Kerja (MK) -> Kinerja Karyawan (KK)	0.352	3.033	0.003	Accepted
Indirect Effects					
H6	Gaya Kepemimpinan Transformasional (GKT) -> Motivasi Kerja (MK) -> Kinerja Karyawan (KK)	0.175	2.569	0.010	Accepted

H7	Stres Kerja (SK) -> Motivasi Kerja (MK) -> Kinerja Karyawan (KK)	-0.113	2.021	0.044	Accepted
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Source: Processed Primary Data, 2026.

The test results showed that all research hypotheses were accepted at the 5% significance level. These findings indicate that transformational leadership style and work motivation act as driving factors for employee performance, while work stress acts as a performance inhibitor. Furthermore, job motivation proved to be a psychological mechanism explaining the relationship between transformational leadership style and work stress on employee performance.

The Effect of Transformational Leadership Style on Work Motivation

The results indicate that Transformational Leadership Style (GKT) has a positive and significant effect on Work Motivation (MK), with a t-statistic of $4.992 > 1.9971$ and a p-value of $0.000 < 0.05$. This finding suggests that the more effectively transformational leadership style is implemented, the higher the employees' work motivation. This result can be explained by Self-Determination Theory (SDT), which emphasizes the importance of fulfilling the psychological needs of autonomy, competence, and relatedness to enhance intrinsic motivation. In addition, Social Exchange Theory (SET) explains that positive treatment from leaders encourages reciprocal responses in the form of increased work motivation. Meanwhile, Job Demands-Resources (JD-R) Theory positions transformational leadership style as a job resource that enhances employees' energy and motivation. These findings are consistent with the studies of Maringan et al. (2022) and Suryaninggala and Wahyulina (2025).

The Effect of Work Stress on Work Motivation

The results show that Work Stress (SK) has a negative and significant effect on Work Motivation (MK), with a t-statistic of $3.097 > 1.9971$ and a p-value of $0.002 < 0.05$. This indicates that an increase in work stress leads to a decrease in employees' work motivation. According to JD-R Theory, work stress occurs when job demands exceed available job resources, resulting in psychological exhaustion that reduces work motivation. This condition highlights the importance of maintaining a balance between job demands and organizational resources. These findings are consistent with the studies of Rahmawati and Suryani (2021) and Sari and Surya (2025).

The Effect of Transformational Leadership Style on Employee Performance

Transformational Leadership Style (GKT) has a positive and significant effect on Employee Performance (KK), with a t-statistic of $2.770 > 1.9971$ and a p-value of $0.006 < 0.05$. This finding indicates that transformational leadership style can improve employee performance. From a theoretical perspective, Social

Exchange Theory (SET) explains that reciprocal relationships between leaders and employees encourage greater work contributions. Furthermore, JD-R Theory suggests that transformational leadership style functions as a job resource that enhances work engagement and performance. This finding supports the study of Helalat et al. (2025), which concluded that transformational leadership style is one of the key determinants of employee performance improvement.

The Effect of Work Stress on Employee Performance

Work Stress (SK) has a negative and significant effect on Employee Performance (KK), with a t-statistic of $2.086 > 1.9971$ and a p-value of $0.038 < 0.05$. This finding indicates that higher levels of work stress are associated with lower employee performance. Based on JD-R Theory, increased job demands without adequate job resources create strain, which negatively affects performance by reducing concentration and productivity. These findings are consistent with the studies of Fajri and Oktiani (2025) and Putri and Suratman (2025).

The Effect of Work Motivation on Employee Performance

Work Motivation (MK) has a positive and significant effect on Employee Performance (KK), with a t-statistic of $3.033 > 1.9971$ and a p-value of $0.003 < 0.05$. This indicates that higher work motivation leads to better employee performance. This finding is supported by Self-Determination Theory (SDT), which states that the fulfillment of psychological needs enhances intrinsic motivation, resulting in improved performance. Employees who possess high levels of motivation tend to exert greater effort, demonstrate stronger commitment to organizational goals, and achieve better work outcomes. These results are consistent with the findings of Hasana and Helmi (2023).

The Effect of Transformational Leadership Style on Employee Performance through Work Motivation

The results show that Transformational Leadership Style (GKT) has a positive and significant effect on Employee Performance (KK) through Work Motivation (MK), with a t-statistic of $2.569 > 1.9971$ and a p-value of $0.010 < 0.05$. Work Motivation (MK) was found to act as a partial mediator. The direct effect of GKT on KK also remained significant (p-value = $0.006 < 0.05$), indicating partial mediation. Theoretically, the integration of SDT, SET, and JD-R Theory explains that transformational leadership style enhances employees' motivation through the fulfillment of psychological needs, reciprocal social relationships, and the provision of job resources. Increased motivation subsequently encourages employees to perform more effectively and contribute more positively to organizational objectives. Therefore, the implementation of transformational leadership style not only directly improves employee performance but also indirectly enhances performance through increased work motivation.

The Effect of Work Stress on Employee Performance through Work Motivation

The results show that Work Stress (SK) has a negative and significant effect on Employee Performance (KK) through Work Motivation (MK), with a t-statistic of $2.021 > 1.9971$ and a p-value of $0.044 < 0.05$. Work Motivation (MK) was found to act as a partial mediator. The direct effect of SK on KK also remained significant (p-value = $0.038 < 0.05$), indicating partial mediation. According to JD-R Theory, excessive job demands may deplete employees' physical and psychological resources, leading to reduced work motivation. As motivation decreases, employees are less likely to maintain optimal levels of effort and performance. Consequently, work motivation serves as an important psychological mechanism through which work stress influences employee performance. These findings suggest that reducing work stress and maintaining employee motivation are essential for sustaining high levels of performance within the organization.

Conclusion

This study demonstrates that transformational leadership plays a significant role in enhancing employee work motivation and performance, while work stress negatively affects both work motivation and employee performance in the financing industry. Furthermore, work motivation was found to be an important mediating factor in the relationship between transformational leadership, work stress, and employee performance. These findings indicate that improving employee performance requires effective leadership support, proper work stress management, and continuous efforts to enhance employee motivation. Companies in the financing industry should strengthen the implementation of transformational leadership practices and foster a supportive work environment to minimize work stress, thereby improving employee motivation and performance. This study has several limitations, as it was conducted within a single company in the financing industry using a cross-sectional research design; therefore, the findings cannot be broadly generalized. Future research is recommended to involve more diverse research settings and include various companies within the financing industry as well as other sectors. In addition, incorporating variables such as employee engagement, job satisfaction, and organizational commitment may provide a more comprehensive understanding of the factors influencing employee performance.

Declaration of interest

The authors declare that they have no known competing financial interests or personal relationships that could have influenced the work reported in this article.

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