

The Influence of Participative Leadership Style and Organizational Culture on Employee Performance through Motivation as an Intervening Variable

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ABSTRACT

Purpose: This study investigates the extent to which participative leadership style and organizational culture influence employee performance, both directly and indirectly, through the mediating role of work motivation. Amid the growing complexity of organizational environments especially within the financial services sector this research aims to explore how human-centric leadership and cultural alignment can enhance performance outcomes

Subjects and Methods: The study employed a quantitative approach involving 120 employees from financial service institutions in Indonesia. Data were collected using validated instruments and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The model tested both direct and indirect pathways to assess the mediation effects of work motivation on the relationships between leadership, culture, and performance.

Results: The findings revealed that participative leadership and organizational culture significantly influence employee performance. Moreover, both variables exert an additional indirect effect through work motivation, which serves as a partial mediator. The structural model explained 56.4% of the variance in employee performance and 47.2% in work motivation. All path coefficients were statistically significant ($p < 0.05$), indicating strong predictive relationships among the constructs.

Conclusions: The study underscores the strategic importance of participative leadership and cultural alignment in fostering motivational climates that drive high performance. Work motivation emerged as a critical psychological mechanism through which organizational structures translate into behavioral outcomes. These findings provide theoretical validation for Self-Determination Theory in organizational settings and offer practical insights for leaders seeking to develop adaptive, engaged, and high-performing teams in competitive service environments.

INTRODUCTION

The evolving dynamics of organizational ecosystems driven by digital disruption, agile work systems, and changing employee expectations have necessitated a re-evaluation of traditional leadership paradigms and cultural frameworks. Participative leadership, which emphasizes collaboration, mutual respect, and shared authority, is no longer a progressive choice but a strategic imperative. Unlike transactional or authoritarian models, participative leadership invites employees into the decision-making process, cultivates a sense of ownership, and reinforces commitment to organizational objectives (Lam et al., 2023).

Parallel to this, organizational culture serves as the tacit infrastructure that shapes attitudes, perceptions, and behaviors across hierarchical levels. A robust culture provides coherence, cultivates loyalty, and embeds institutional norms that guide discretionary behavior beyond formal control systems (Denison et al., 2023; Hartnell et al., 2021). When this cultural scaffolding aligns with participative leadership, it creates a synergistic environment conducive to high performance. Central to this organizational interplay is work motivation—an internal force that energizes, directs, and sustains behavior toward goals. Drawing on Self-Determination Theory (Ryan & Deci, 2020), motivation is seen as a nuanced construct, emerging from the fulfillment of basic psychological needs: autonomy, competence, and relatedness. Within environments that promote participation and cultural congruence, employees are more likely to be intrinsically motivated and sustainably productive (Gagné et al., 2023).

While extensive scholarship exists on leadership styles and organizational culture as separate predictors of performance, limited research has explored their integrated impact through the mediating role of motivation particularly within service-oriented institutions undergoing organizational change. Furthermore, as financial institutions face mounting pressure to digitize processes, retain talent, and maintain service excellence, there is a need for empirical clarity on how soft-system factors such as participative leadership and culture translate into measurable employee performance through motivational channels.

This study seeks to: 1) Analyze the direct effect of participative leadership style on employee performance; 2) Examine the direct influence of organizational culture on employee performance; 3) Investigate the mediating role of work motivation in the relationship between participative leadership and performance; 4) Assess the mediating role of work motivation in the relationship between organizational culture and performance.

This study contributes both theoretically and practically. Theoretically, it extends the integration of leadership and cultural theories with motivation frameworks to explain performance dynamics in knowledge-intensive service environments. It affirms and expands Self-Determination Theory within an applied organizational context. Practically, it provides actionable insights for financial service institutions seeking to enhance performance not merely through structural or procedural means, but through human-centric strategies. By empirically validating a motivation-based performance model, the study guides leaders and HR practitioners in designing adaptive, participatory, and culturally resonant work environments capable of sustaining excellence in complex and evolving markets.

METHODOLOGY

This study employed a quantitative approach with a causal explanatory design. The aim was to empirically test the relationship between participative leadership style and organizational culture on employee performance, both directly and indirectly through motivation as an intervening variable. This approach was chosen because it aligned with the primary objective of the study, which was to identify patterns of relationships between variables and statistically estimate the strength of their influence (Creswell & Creswell, 2018). The explanatory design also allowed the researcher to test the conceptual framework derived from previous theories in the form of a quantitative model analysis that could be objectively tested.

The population in this study was all permanent employees of a national manufacturing services company undergoing organizational transformation, with a total population of 285 employees. Sampling was conducted using a proportional stratified random sampling technique, resulting in a total of 165 respondents, who met the minimum threshold for testing path models and Structural Equation Modeling (SEM) based on Partial Least Squares (SmartPLS), as recommended by Hair et al. (2021), which is at least 5 to 10 times the number of indicators in the latent variable.

Data collection was conducted through a questionnaire structured on a 5-point Likert scale, ranging from "strongly disagree" to "strongly agree." The research instrument was developed based on indicators validated in previous studies. Participative leadership style was measured using the dimensions of decision-making involvement, open communication, and empowerment (Yukl, 2020). Organizational culture refers to the dimensions of shared values, collective work practices, and loyalty to the institution (Denison et al., 2023). Employee motivation variables used indicators of intrinsic motivation, need for achievement, and non-financial incentives (Ryan & Deci, 2020), while employee performance included productivity, work quality, and individual efficiency (Armstrong & Taylor, 2023).

Before conducting the main analysis, the instruments were tested for validity and reliability. Construct validity was tested using convergent and discriminant validity, while reliability was measured using Composite Reliability and Cronbach's Alpha (values > 0.70 are considered adequate) (Hair et al., 2021). The data were then analyzed using the SEM-PLS method using SmartPLS 4.0 software. This technique was chosen because it can accommodate complex models with mediation relationships and does not require the data to be strictly normally distributed (Sarstedt et al., 2022). The model analysis included testing for direct effects, indirect effects (mediation), and significance testing using bootstrapping with 5,000 resamplings. With this methodological approach, the research aims not only to produce valid statistical findings but also to provide practical contributions to organizational management in designing leadership strategies and strengthening work cultures that can sustainably drive employee motivation and performance in today's increasingly dynamic organizational landscape.

In the context of modern organizations that demand high work effectiveness amidst the pressures of a changing work environment, participatory leadership and organizational culture have become two dominant factors shaping employee performance. Participatory leadership, characterized by subordinate involvement in decision-making, two-way communication, and a collaborative approach, is considered capable of increasing employees' sense of ownership and responsibility for organizational goals (Yukl, 2020). Participatory leaders not only distribute authority but also create a work environment that encourages self-actualization and a sense of appreciation—two aspects proven to foster intrinsic motivation (Ryan & Deci, 2020). Within this framework, motivation acts as a psychological mechanism mediating the influence of leadership on employee behavior and work outcomes.

On the other hand, organizational culture is a social construct that reflects the collective system of values, norms, and beliefs within an institution. A culture that supports innovation, openness, and collaborative work is believed to be a contextual factor that strengthens work motivation (Denison et al., 2023). Employees operating within a healthy cultural ecosystem tend to feel more motivated, engaged, and committed to achieving performance. Thus, the relationship between organizational culture and employee performance is not direct, but rather facilitated by the individual's level of motivation in responding to structural expectations.

Based on this theoretical foundation, the framework in this study illustrates that both participative leadership style and organizational culture have a direct influence on employee performance, as well as an indirect influence mediated by motivation. In this case, motivation acts as an intervening variable, explaining how structural and behavioral aspects of the organization impact individual outcomes. This approach aligns with the mediation model framework developed by Baron and Kenny (1986) and continues to be used in contemporary studies on organizational behavior and work psychology (Hair et al., 2021). Therefore, testing this model is expected to not only confirm the relationship between the variables but also broaden our understanding of how psychosocial organizational dynamics shape employee performance on an ongoing basis.

Based on the established framework and theoretical foundation, this study formulated several hypotheses to test the direct and indirect relationships between variables. These hypotheses were formulated to confirm the mediating role of motivation in bridging the influence of participative leadership style and organizational culture on employee performance.

Table 1. Formulation of Research Hypothesis

Hypothesis Code	Types of Relationships	Hypothesis Statement
H1	Direct	Participative leadership style has a positive and significant effect on employee performance.
H2	Direct	Organizational culture has a positive and significant effect on employee performance.
H3	Direct	Participative leadership style has a positive and significant effect on employee work motivation.
H4	Direct	Organizational culture has a positive and significant effect on employee work motivation.
H5	Direct	Work motivation has a positive and significant effect on employee performance.
H6	Direct	Work motivation mediates the effect of participative leadership style on employee performance.
H7	Indirect (mediation)	Work motivation mediates the effect of organizational culture on employee performance.

The hypothesis will be statistically tested through PLS-based SEM modeling with a bootstrapping approach to measure the significance of the mediation path, as recommended by Hair et al. (2021) and Sarstedt et al. (2022).

To empirically measure the variables in this study, a closed-ended questionnaire instrument was used based on a 5-point Likert scale (1 = strongly disagree, 5 = strongly agree). Each variable has dimensions and indicators developed from theory and previous empirical studies.

Table 2. Operationalization of Variables

Variable	Dimension	Indicator
Participative Leadership Style	Involvement in decision-making	My supervisor involves me in important decision-making.
	Open communication	My supervisor is open to input from subordinates.
	Empowerment of subordinates	I am given the freedom to take initiative in my work.
Organizational Culture	Shared values	There are shared values between me and the organization.
	Collective engagement	Employees are encouraged to work in teams.
	Loyalty and engagement	I feel a sense of belonging to this organization.
Work Motivation	Intrinsic motivation	I enjoy challenges at work.
	Personal goals and need for achievement	I have personal goals at work.
	Incentives and recognition	I feel appreciated for my work achievements.
Employee Performance	Productivity	I am able to complete work on time.
	Quality of work	My work rarely contains errors.
	Efficiency and effectiveness	I work efficiently and produce optimal results.

Each indicator will be tested for construct validity using AVE and factor loading, as well as for internal reliability using Composite Reliability and Cronbach's Alpha. A minimum factor loading value of ≥ 0.70 and AVE ≥ 0.50 will be the initial criteria for the feasibility of the measurement model (Hair et al., 2021).

RESULTS AND DISCUSSION

This study analyzes the influence of participative leadership style and organizational culture on employee performance, with work motivation as an intervening variable. Data were obtained from 120 respondents in the financial services sector and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM).

All constructs in the model have an AVE value > 0.5, Composite Reliability > 0.8, and loading factor > 0.7, indicating that the instrument used has met the validity and reliability requirements (Hair et al., 2021).

Table 3. Validity and Reliability

Variabel	AVE	Composite Reliability	Cronbach's Alpha
Participative Leadership Style	0.627	0.893	0.861
Organizational Culture	0.654	0.901	0.872
Work Motivation	0.612	0.885	0.843
Employee Performance	0.672	0.896	0.859

Table 4. Hypothesis Testing

Hypothesis	Pathway	Coeff. (β)	t-Stat	p-Value	Result
H1	Participative Leadership → Employee Performance	0.312	3.287	0.001	Significant
H2	Organizational Culture → Employee Performance	0.284	2.975	0.003	Significant
H3	Participative Leadership → Work Motivation	0.421	4.580	0.000	Significant
H4	Organizational Culture → Work Motivation	0.393	3.987	0.000	Significant
H5	Work Motivation → Employee Performance	0.368	4.123	0.000	Significant
H6	Leadership → Motivation → Performance (Indirect)	0.155	2.742	0.006	Significant (Partial)
H7	Culture → Motivation → Performance (Indirect)	0.145	2.621	0.009	Significant (Partial)

The R² value indicates that the model explains 56.4% of the variance in employee performance and 47.2% of the variance in work motivation, reflecting a moderately strong predictive power within organizational-behavioral contexts.

The findings demonstrate that participative leadership and organizational culture significantly influence employee performance, both directly and indirectly through the mediating role of work motivation. These insights align closely with the theoretical underpinnings of Self-Determination Theory (Ryan & Deci, 2020), which positions motivation as a central mechanism that bridges organizational structures with individual behavior.

Participative leadership was found to have a direct and robust influence on both performance and motivation. This reaffirms the critical importance of *employee voice* and *shared decision-making* as drivers of psychological empowerment and ownership (Lam et al., 2023). These results mirror those of Kim and Beehr (2021), who observed that open communication and delegation in participative leadership foster greater job satisfaction and affective commitment.

Likewise, organizational culture emerged as a significant determinant of motivation and performance. When employees resonate with shared values and collective identity, they internalize organizational goals, enhancing team cohesion and performance efficiency (Denison et al., 2023; Hartnell et al., 2021). A value-driven culture facilitates affective integration and

reduces friction between personal aspirations and institutional objectives. The mediating role of work motivation further confirms that performance outcomes are contingent not merely upon structural inputs, but upon the cognitive and emotional states of individuals. This supports a growing body of literature which asserts that sustainable high performance is fueled not only by external rewards, but by intrinsic drivers such as purpose, recognition, and personal growth (Gagné et al., 2023; Kanfer et al., 2022).

In the financial services industry—where volatility, compliance pressure, and digital disruption prevail—these findings hold critical managerial implications. Leadership practices and cultural values must be harmonized not only to optimize task execution, but also to activate autonomous motivation as a foundation for adaptability and innovation (Cameron & Quinn, 2019; Bakker et al., 2021). Beyond technical implementation, the dynamics identified in this model resonate with broader patterns of digital-social convergence in modern work environments. As organizations increasingly navigate hybrid work, social commerce models, and technology-mediated collaboration, the human dimension—embodied in leadership empathy, cultural clarity, and motivational resonance—becomes central to sustained organizational resilience.

CONCLUSION

This study concludes that participative leadership style and organizational culture play a decisive role in enhancing employee performance, both directly and indirectly through the mediation of work motivation. The empirical evidence suggests that leadership approaches grounded in inclusivity, shared authority, and dialogic engagement stimulate greater motivational commitment, which in turn fosters higher levels of individual productivity, initiative, and organizational citizenship behaviors. Similarly, a cohesive and value-driven organizational culture not only aligns collective behaviors but also cultivates an affective environment in which employees internalize the organization's goals and expectations.

The role of work motivation as a mediating variable reaffirms its strategic position in organizational performance models. It is not merely a psychological by-product but a pivotal mechanism through which leadership and culture translate into operational excellence. The findings validate and extend contemporary theories such as Self-Determination Theory, where intrinsic and extrinsic drivers of motivation significantly shape performance outcomes in knowledge-intensive service environments.

In today's volatile and digitally transforming organizational landscapes, particularly in the financial services sector, these findings hold both theoretical and managerial relevance. They underline the necessity of adaptive leadership and culturally resonant practices that not only support task accomplishment but also foster autonomy, purpose, and commitment in the workforce. Ultimately, organizations that strategically integrate these dimensions are better positioned to sustain high performance amidst complex socio-digital transitions and competitive pressures.

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