

UNLOCKING WORK ENGAGEMENT: HOW LEADERSHIP AND TOTAL REWARDS IMPACT EMPLOYEE WORK ENGAGEMENT THROUGH THE MEDIATING ROLE OF SERVICE CLIMATE IN SUPPLY CHAIN AND LOGISTIC COMPANY IN INDONESIA

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DOI : <https://doi.org/10.21107/pamator.v16i2.19791>

Manuscript received 24th April 2023, Revised 15th May 2023, Published 27th May 2023

Abstract

Although the supply chain and logistics sector in Indonesia is developing very well and contributes very significantly to the Indonesian economy, which is about 25% of Indonesia's total GDP (World Bank 2018), the industry is very competitive. To survive in this sector, companies must be able to compete through price, service quality, and product innovation. Work engagement can help employees remain focused, motivated, and productive in such a fast-paced and complex environment. The focus of this research is to confirm the effect of leadership, rewards, and service climate on work engagement and the mediating effect of service climate on work engagement. The sample of this study consists of 287 respondents who work in various divisions and branches of a logistics company in Jakarta, metropolitan Indonesia. The data is analyzed using the Smart PLS version 3.0 application. All of the research hypotheses were accepted, there for Leadership practices have a positive and significant effect on work engagement and service climate, Total Rewards have a positive and significant effect on service climate and work engagement, and Service Climate mediates the effect of Leadership practices and Total Reward on work engagement. It is expected the research findings can be used by the company to understand and improve their service delivery processes, enhance employee engagement and satisfaction, and ultimately increase customer satisfaction and loyalty, which are critical factors to survive in a competitive market.

Keywords: Service Climate, Leadership, Rewards, Work Engagement

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INTRODUCTION

There is intense competition for market share in Indonesia's supply chain and logistics sector, with firms competing on quality, service, price, and innovation. Despite the challenges, the industry has significant growth opportunities driven by the country's rapidly growing economy and expanding consumer market. This sector is critical to Indonesia's economy because it allows for the efficient movement of goods and services across the vast archipelago. The World Bank reports that Indonesia's logistics sector accounts for about 25% of the country's total GDP, making it a significant contributor to the economy, and one of the country's development priorities, as it is expected to grow at a rate of 10-15% per year and contribute to the creation of more than 4 million jobs by 2020.¹

Work engagement can be crucial in Indonesia's supply and logistics business, involving various tasks, from managing inventory and distribution to coordinating transportation and delivery. Work engagement can help employees remain focused, motivated, and productive in such a fast-paced and complex environment.

An employee's psychological state, known as work engagement, is characterized by high concentration, dedication, and perseverance. Dedication, strength, and absorption characterize this fulfilled, productive state of mind linked to personal and professional fulfillment.² Saks and Gruman (2020) state, "Work engagement is a positive, fulfilling, work-related state of mind characterized by high levels of energy, involvement, and efficacy and is related to the individual's sense of meaning, fulfillment, and connection to their work and workplace."³

Work engagement, on the other hand, combines high levels of job satisfaction (engagement) with high levels of activation (perseverance, focus), according to Bakker (2011). Job satisfaction, on the other hand, is frequently a passive measure of employee well-being. Because it involves cognition (absorption), affection (enthusiasm), and motivation (dedication), work engagement differs from motivation in this regard.⁴ Furthermore, according to Hallberg et al. (2006), professional participation and

¹ World Bank, 'Indonesia Logistics Sector Assessment', *Worldbank.Org*, 2018 <<https://www.worldbank.org/en/country/indonesia/publication/logistics-sector-assessment>>.

² Arnold B. Bakker and Evangelia Demerouti, 'Demands-Resources Theory: Taking Stock And Looking Forward', *Journal of Occupational Health Psychology*, 22.3 (2017), 273-85 <<https://doi.org/10.1037/ocp0000056>>.

³ Jamie A. Gruman and Alan M. Saks, 'Employee And Collective Voice Engagement: Being Psychologically Present When Speaking Up At Work', in *Handbook of Research on Employee Voice*, ed. by Adrian Wilkinson and others, 2nd edn (Edward Elgar Publishing Ltd., 2020), pp. 397-417 <<https://doi.org/10.4337/9781788971188.00031>>.

⁴ Arnold B. Bakker, 'An Evidence-Based Model Of Work Engagement', *Current Directions in Psychological Science*, 20.4 (2011), 265-69 <<https://doi.org/10.1177/0963721411414534>>.

organizational participation are the sources of job participation. According to the CFA (Confirmatory Factor Analysis) test, they are separate constructs that explain various aspects of people's attachment to their work (work attachment), and job engagement, despite being empirically similar to job engagement and organizational commitment.⁵

Work engagement is a complicated and multifaceted concept influenced by some antecedents, such as job resources, job demands, organizational climate, and individual characteristics. Bakker's (2009) Job Demand and Resources (JD-R) theory posits that a "combination of job resources such as autonomy, performance feedback, organizational social support, and fortitude on the part of the employee contribute to employee engagement." Work resources positively affect job engagement because they reduce the tension of meeting deadlines and inspire employees to pursue professional and personal growth.⁶

In addition to work and organizational resources, many research results show that engaged employees tend to be upbeat and confident in meeting their needs through engagement in their job role and organization. They also strongly believe in their ability to meet job demands (self-efficacy). Self-efficacy and other personal resources can lessen the detrimental effects of job demands on work engagement.⁷ According to Petru et al. (2018), job crafting behaviors were positively correlated with job engagement using job resources.⁸ Luthans, Youssef, and Avolio's 2007 study found that "employees who report higher PsyCap levels also report higher levels of job involvement, which is associated with higher levels of job satisfaction and organizational engagement."⁹

Engagement at work can be significantly impacted by a leader's behavior. Work engagement can benefit from leadership behaviors that offer work resources like support, feedback, and coaching.¹⁰ In a study on nurses, Lee, Wu, and Chang (2021) discovered

⁵ Ulrika E. Hallberg and Wilmar B. Schaufeli, "Same Same" But Different? Can Work Engagement Be Discriminated From Job Involvement And Organizational Commitment?, *European Psychologist*, 11.2 (2006), 119–27 <<https://doi.org/10.1027/1016-9040.11.2.119>>.

⁶ Wilmar B. Schaufeli, Arnold B. Bakker, and Willem van Rhenen, 'How Changes In Job Demands And Resources Predict Burnout, Work Engagement, And Sickness Absenteeism', *Journal of Organizational Behavior*, 30.7 (2009), 893–917 <<https://doi.org/10.1002/job.595>>.

⁷ Despoina Xanthopoulou and others, 'Reciprocal Relationships Between Job Resources, Personal Resources, And Work Engagement', *Journal of Vocational Behavior*, 74.3 (2009), 235–244 <<https://doi.org/10.1016/j.jvb.2008.11.003>>.

⁸ Paraskevas Petrou, Evangelia Demerouti, and Wilmar B. Schaufeli, 'Crafting the Change: The Role of Employee Job Crafting Behaviors for Successful Organizational Change', *Journal of Management*, 44.5 (2018), 1766–92 <<https://doi.org/10.1177/0149206315624961>>.

⁹ Fred Luthans and others, 'Positive Psychological Capital: Measurement And Relationship With Performance And Satisfaction', *Personnel Psychology*, 60.3 (2007), 541–572 <<https://doi.org/10.1111/j.1744-6570.2007.00083.x>>.

¹⁰ Arnold B. Bakker and Evangelia Demerouti, 'The Job Demands-Resources Model: State Of The Art', *Journal of Managerial Psychology*, 22.3 (2007), 309–28 <<https://doi.org/10.1108/02683940710733115>>; Eean R. Crawford, Jeffery A. LePine, and Bruce Louis Rich, 'Linking Job Demands And Resources To Employee Engagement And Burnout: A Theoretical

a positive correlation between leadership behavior and work engagement that emphasizes the welfare and growth of followers. According to research by Tummers, Van Merode, and Steijn (2020), participative leadership, which involves staff members in decision-making procedures, is positively related to work engagement.

While this happens, a healthy organizational culture can increase work engagement by giving employees meaningfulness, safety, and vitality.¹¹ Shuck, B., & Reio, T. G. (2014) found that a positive organizational culture was positively related to work engagement.¹² The relationship between organizational culture and employee retention is looked at by Lee, K., & Allen, NJ (2016). The authors discovered that work engagement moderated the relationship between a favorable organizational culture and employee retention. In China's public sector, Su, L., & Chen, J. (2020) examined the connection between organizational culture and employee engagement.¹³ The authors discover that job engagement is positively correlated with a positive organizational culture and that this correlation is mediated by job resources.

Employee performance, productivity, and well-being are significantly influenced by employee engagement. Work engagement was positively correlated with employees' fundamental self-evaluations, people management strategies, and the effectiveness of leader-member exchange,¹⁴ and is linked positively to future task performance and negatively to future absenteeism¹⁵ and intention to stay¹⁶. Additionally, Albrecht et al.'s meta-analysis from 2023 found unequivocally that important employee outcomes were

Extension And Meta-Analytic Test', *Journal of Applied Psychology*, 5.5 (2010), 834–48 <<https://doi.org/10.1037/a0019364>>.

¹¹ Arnold B. Bakker, Simon L. Albrecht, and Michael P. Leiter, 'Work Engagement: Further Reflections On The State Of Play', *European Journal of Work and Organizational Psychology*, 20.1 (2011), 74–88 <<https://doi.org/10.1080/1359432X.2010.546711>>.

¹² Brad Shuck and Thomas G. Reio, 'Employee Engagement And Well-Being: A Moderation Model And Implications For Practice', *Journal of Leadership and Organizational Studies*, 21.1 (2014), 43–58 <<https://doi.org/10.1177/1548051813494240>>.

¹³ Lu Chen and others, 'Inclusive Leadership Promotes Challenge-Oriented Organizational Citizenship Behavior Through the Mediation of Work Engagement and Moderation of Organizational Innovative Atmosphere', *Frontiers in Psychology*, 11 (2020), 560594 <<https://doi.org/10.3389/fpsyg.2020.560594>>.

¹⁴ Lucia Barbosa Oliveira and Juliana da Costa Rocha, 'Work Engagement: Individual And Situational Antecedents And Its Relationship With Turnover Intention', *Review of Business Management*, 19.65 (2017), 415–31 <<https://doi.org/10.7819/rbgn.v19i64.3373>>.

¹⁵ Lina Neuber and others, 'How Work Engagement Relates To Performance And Absenteeism: A Meta-Analysis', *European Journal of Work and Organizational Psychology*, 31.2 (2022), 292–315 <<https://doi.org/10.1080/1359432X.2021.1953989>>; Jin Yao and others, 'The Relationship Between Work Engagement and Job Performance: Psychological Capital as a Moderating Factor', *Frontiers in Psychology*, 13 (2022), 192 <<https://doi.org/10.3389/fpsyg.2022.729131>>.

¹⁶ Annick Parent-Lamarche, 'Teleworking, Work Engagement, and Intention to Quit during the COVID-19 Pandemic: Same Storm, Different Boats?', *International Journal of Environmental Research and Public Health*, 19.3 (2022), 1267 <<https://doi.org/10.3390/ijerph19031267>>.

positively correlated with employee engagement,¹⁷ Such as innovative work behavior, contextual performance, reduced turnover intentions, proactive work behavior, and task performance (e.g., Kwon and Kim, 2020; Borst et al., 2020; Neuber et al., 2022; Crawford et al., 2010; Woznyj et al., 2022).

In the service industries context, many researchers proposed that service climate in an organization affects employee work engagement. Karatepe & Kilic (2007) state, "Service climate is a collective perception of employees about the importance of service quality and customer satisfaction in the organization."¹⁸ According to Schneider, Ehrhart, and Macey (2013), service climate refers to how much employees believe their company will meet customers' needs and deliver high-quality service.¹⁹

Schneider, Ehrhart, and Macey (2013) discovered that higher levels of employee engagement and job satisfaction are correlated with a positive organizational climate, including a positive service climate.²⁰ Kim and Brymer (2011) discovered that the relationship between a hospitality manager's ethical leadership and work engagement could be moderated by a positive service climate.²¹

To the best of the researcher's knowledge, there has not been much research on work engagement and its predictors, especially those related to the role of leadership, rewards, and service climate, particularly in Indonesia's supply management and logistics sector. This study aims to confirm the links between leadership, rewards, work climate, and engagement at work as well as the mediating effect of service climate.

It is expected that the company can use the findings of this research to understand and improve its service delivery processes, enhance employee work engagement and satisfaction, and ultimately increase customer satisfaction and loyalty, which are critical factors to survive in a competitive market.

RESEARCH METHODS

A quantitative approach was used in this study to determine the effects of leadership practices, total rewards, and service climate on work engagement (see Figure 1). Then,

¹⁷ Simon L. Albrecht, Sarah Furlong, and Michael P. Leiter, 'The Psychological Conditions For Employee Engagement In Organizational Change: Test Of A Change Engagement Model', *Frontiers in Psychology*, 14 (2023), 18 <<https://doi.org/10.3389/fpsyg.2023.1071924>>.

¹⁸ Osman M. Karatepe and Hasan Kilic, 'Relationships Of Supervisor Support And Conflicts In The Work-Family Interface With The Selected Job Outcomes Of Frontline Employees', *Tourism Management*, 28.1 (2007), 238–52 <<https://doi.org/10.1016/j.tourman.2005.12.019>>.

¹⁹ Benjamin Schneider, Mark G. Ehrhart, and William H. MacEy, 'Organizational Climate And Culture', *Annual Review of Psychology*, 64 (2013), 361–88 <<https://doi.org/10.1146/annurev-psych-113011-143809>>.

²⁰ Schneider, Ehrhart, and MacEy.

²¹ Woo Gon Kim and Robert A. Brymer, 'The Effects Of Ethical Leadership On Manager Job Satisfaction, Commitment, Behavioral Outcomes, And Firm Performance', *International Journal of Hospitality Management*, 30.4 (2011), 1020–26 <<https://doi.org/10.1016/j.ijhm.2011.03.008>>.

using prior research as a foundation, we investigated the following theories:

H1: Service Climate has a positive effect on Work Engagement.

H2: Leadership practices have a positive effect on Service Climate.

H3: Total Rewards has a positive effect on Service Climate.

H4: The reward system has a positive effect on work engagement.

H5: Leadership has a direct positive effect on Employee Engagement.

H5: Service Climate mediates the effect of Leadership practices and Total Rewards on work engagement.

This study's sample consists of 287 respondents who work in various divisions and branches of a logistics company in Jakarta, Indonesia. Each of the four variables—Leadership Practices, Total Rewards, Service Climate, and Work Engagement—includes statements on a Likert scale of 1–5, and the instrument is divided into these four parts. Google Forms were used to distribute the questionnaires to the respondents. The Leadership Practices Questionnaire was created following the Kouzes and Posner Leadership Practices Inventory, which includes five dimensions: inspiring others to action, challenging the process, modeling the path, inspiring a shared vision, and encouraging the heart.²² The questionnaire to measure respondents' perception of Total rewards consists of 3 dimensions: Salary and Bonuses, Work Environment, and Performance Recognition. The questionnaire on Service Climate consists of 5 dimensions: Service Leadership, Customer Centricity, Service Technology, Service Training, and Service Standards. As opposed to the Utrecht Work Engagement Scale (UWES) Schaufeli, Bakker, and Salanova (2006), which consists of 17 questions across three dimensions (vigor, dedication, and absorption), the work engagement questionnaires used a Bahasa Indonesian translation of the UWES.²³

²² Barry Z. Posner and James M. Kouzes, 'Development and Validation of the Leadership Practices Inventory', *Educational and Psychological Measurement*, 48.2 (1988), 483–96 <<https://doi.org/10.1177/0013164488482024>>.

²³ Wilmar B. Schaufeli, Arnold B. Bakker, and Marisa Salanova, 'The Measurement Of Work Engagement With A Short Questionnaire: A Cross-National Study', *Educational and Psychological Measurement*, 66.4 (2006), 701–716 <<https://doi.org/10.1177/0013164405282471>>.

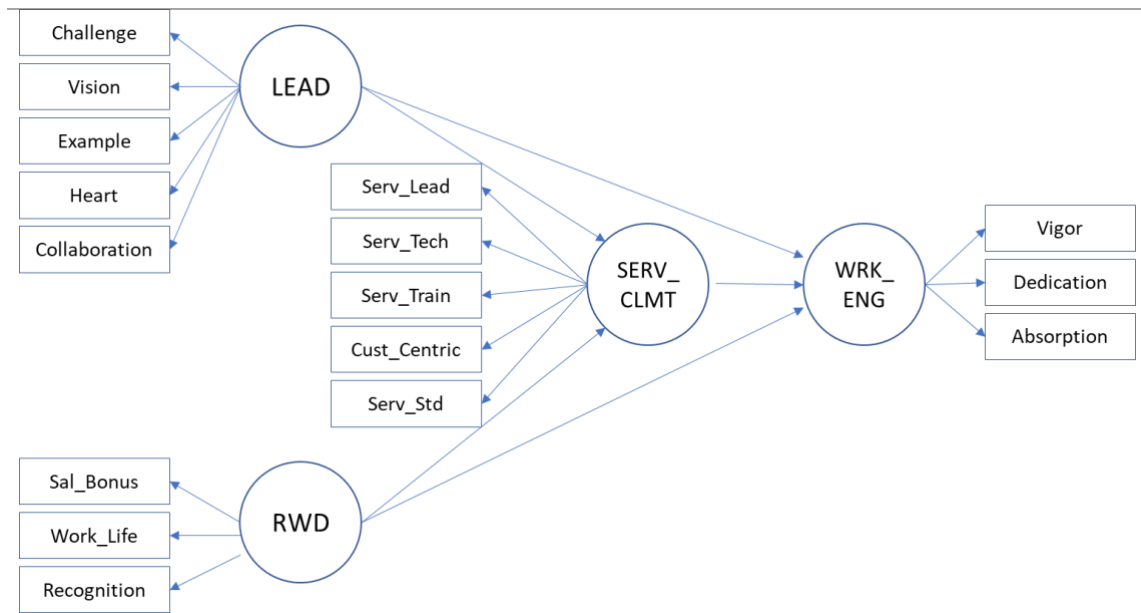


Figure 1. The research framework model Measurement Construct

Data analysis

The Smart PLS 3.0 application was used in this study to implement PLS-SEM structural model measurements using a second-order technique, namely (1) external model validation (measurement) and (2) internal model measurement, which included an analysis of relationships between structural and latent factors.²⁴ A second-order construct is a higher-order factor built from multiple first-order constructs. By simplifying the structural model and enhancing the measurement model's validity and reliability, SmartPLS can produce more accurate and informative results.²⁵

RESULT AND DISCUSSION

A total of 287 respondents, whose demographic details are shown in Table 1, provided the sample data. According to the table, 63% of respondents were men, 17% were women, and 51% worked with children between the ages of 3 – 10. Concerning the education level, almost half (49%) of the respondents graduated from Senior high schools.

Table 1. Sample demographics Variable

Variables	Category	N	Percent (%)
Gender	Male	180	63%
	Female	107	37%

²⁴ V. E Vinzi and others, *Handbook Of Partial Least Squares*, 1st edn (Berlin: Springer, 2010) <<https://doi.org/10.1007/978-3-540-32827-8>>.

²⁵ J. F. Hair and others, *A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM)*, 2nd edn (Sage Publications, 2017).

Variables	Category	N	Percent (%)
Tenure	< 2 year	47	16%
	3 - 10 Years	145	51%
	> 10 years	95	33%
Office	Head Office	30	10%
	Regional Office	11	4%
	Branches	196	68%
	Call Center	50	17%
Education	Junior High School	62	22%
	Senior High School	140	49%
	Diploma	60	21%
	Bachelor Degree	25	9%

Outer Model

As shown in Table 2, the convergent validity of external exposure index > 0.70 and AVE score > 0.50 indicates the internal reliability of the variables Leadership, Total Rewards, Work Climate, and Work Engagement.

The outer loading indicator gauges how closely the latent construct and the observed variable are related. A value of > 0.70 indicates that the observed variable is a good indicator of the latent construct and contributes significantly to the measurement model.²⁶ This suggests that the items used to measure the construct are reliable and valid.

The degree to which items intended to measure the same construct are related to one another is a measure of convergent validity. Values greater than 0.50 signify a significant correlation between items intended to measure the same structure.²⁷ This suggests that the structure is consistent across the various items used to measure it and that these items measure the same structure.

Therefore, the external model's internal validity results in Smart PLS will converge if the external loading index is > 0.70 and the AVE value is > 0.50 . The items used to measure the underlying structure are valid and reliable, and the measurement model has good internal validity. This supports using the measurement model in subsequent analyses and increases confidence in the results obtained.

²⁶ Hair and others.

²⁷ Hair and others.

Table 2. Results of the reflective construct assessments

Construct	Dimension	Indicators	Factors Loading	Composite Reliability	Average Variance Extracted (AVE)
Work Engagement	Absorption	WE_Ab1	0.712	0.856	0.544
		WE_Ab2	0.705		
		WE_Ab3	0.735		
		WE_Ab4	0.821		
		WE_Ab5	0.709		
	Dedication	WE_De1	0.746	0.892	0.624
		WE_De2	0.809		
		WE_De3	0.817		
		WE_De4	0.788		
		WE_De5	0.788		
	Vigor	WE_Vi2	0.793	0.862	0.611
		WE_Vi4	0.718		
		WE_Vi6	0.781		
WE_Vi5		0.830			
Leadership	Hati	L_Ht1	0.831	0.829	0.708
		L_Ht2	0.853		
	Challenge	L_Cl2	0.789	0.825	0.612
		L_Cl3	0.736		
		L_Cl4	0.820		
	K_Sama	L_Ks2	0.854	0.871	0.692
		L_Ks3	0.777		
L_Ks4		0.862			

Construct	Dimension	Indicators	Factors Loading	Composite Reliability	Average Variance Extracted (AVE)	
	Visi	L_Vs1	0.713	0.836	0.562	
		L_Vs2	0.838			
		L_Vs3	0.730			
		L_Vs4	0.711			
	M_Contoh	L_Ct1	0.827	0.891	0.672	
		L_Ct2	0.833			
		L_Ct3	0.860			
		L_Ct4	0.755			
Total Rewards	Lk_Kerja	Rw_WL1	0.760	0.868	0.622	
		Rw_WL2	0.825			
		Rw_WL3	0.806			
		Rw_WL4	0.762			
	Gj_Bonus	Rw_SB1	0.828	0.893	0.736	
		Rw_SB2	0.886			
		Rw_SB3	0.859			
	Rekognisi	Rw_R2	0.875	0.860	0.754	
		Rw_R3	0.862			
	Service Climate	C_Centric	Ikl_Cc2	0.828	0.872	0.694
			Ikl_Cc3	0.872		
			Ikl_Cc4	0.798		
S_Lead		Ikl_SL1	0.717	0.851	0.535	
		Ikl_SL2	0.779			
		Ikl_SL3	0.756			

Construct	Dimension	Indicators	Factors Loading	Composite Reliability	Average Variance Extracted (AVE)
		Ikl_SL4	0.758		
	S_System	Ikl_Ss1	0.884	0.895	0.741
		Ikl_Ss2	0.850		
		Ikl_Ss3	0.847		
	S_Tekno	Ikl_STk1	0.801	0.845	0.646
		Ikl_STk2	0.864		
		Ikl_STk3	0.741		
	S_Train	Ikl_Tr1	0.823	0.820	0.694
		Ikl_Tr2	0.844		

Inner Model Analysis

The inner model analysis is a critical step in evaluating the validity and reliability of a structural model. Hair et al. (2017) define inner model analysis as “an evaluation of the structural model that includes the assessment of the measurement model and the structural paths between latent variables.”²⁸ Similar to how Ringle, Wende, and Will (2015) define it, inner model analysis is the study of the connections between the latent variables of the structural model.²⁹

Table 3. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
LEADERSHIP	0.704	0.711	0.871	0.771
TOTAL REWARDS	0.787	0.788	0.876	0.702
SERV. CLIMATE	0.764	0.875	0.92	0.794

²⁸ Hair and others.

²⁹ Christian M Ringle, Sven Wende, and Jan-Michael Becker, *SmartPLS 3* (Boenningstedt: SmartPLS GmbH, 2015).

WORK ENGAGEMENT	0.726	0.683	0.86	0.754
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Table 4. Fornell-Larcker Criterion

	CLMTE	LEAD	RWD	W_ENG
CLMTE	0.878			
LEAD	0.548	0.838		
RWD	0.673	0.576	0.891	
W_ENG	0.633	0.636	0.738	0.869

Table 5. Cross Loadings

	CLMTE	LEAD	RWD	W_ENG
Serv_Lead	0.826	0.613	0.647	0.678
C_Serv_Tek	0.799	0.595	0.616	0.650
C_Serv_Train	0.782	0.508	0.563	0.587
Cust_Ctr	0.777	0.511	0.637	0.637
Contoh	0.520	0.759	0.506	0.567
Hati	0.572	0.769	0.505	0.600
K_Sama	0.586	0.758	0.615	0.591
L_Challenge	0.498	0.795	0.443	0.583
L_Visi	0.525	0.779	0.497	0.585
R_L_Kerja	0.715	0.600	0.916	0.671
R_Rekognisi	0.723	0.614	0.894	0.721
R_Sal_Bonus	0.629	0.566	0.862	0.660
Dedication	0.695	0.636	0.656	0.871

Absorb	0.689	0.664	0.617	0.832
W_Vigor	0.594	0.569	0.625	0.762

Table 6. VIF Values

	VIF
Absorb	1.658
C_Serv_Tek	1.674
C_Serv_Train	1.645
Contoh	1.666
Cust_Ctr	1.585
Dedication	1.866
Hati	1.649
K_Sama	1.627
L_Challenge	1.847
L_Visi	1.811
R_L_Kerja	2.819
R_Rekognisi	2.363
R_Sal_Bonus	2.064
Serv_Lead	1.774
W_Vigor	1.378

Table 7. Model Fit Summary

	Saturated Model	Estimated Model
SRMR	0.064	0.064

d_ULS	0.495	0.495
d_G	0.25	0.25
Chi-Square	397.84	397.84
NFI	0.841	0.841

The fit index shows that the model fits very well, following the earlier findings. The model fits the data well, as indicated by the SRMR value of $0.064 < 0.08$. The d_ULS (Unweighted Least Squares discrepancy) measures the discordance between the observed and predicted covariance matrices. The value of d_ULS is 0.496, which indicates a reasonable model fit. The d_G (Geodesic discrepancy) index is similar to the d_ULS but considers the model's complexity. A better fit is indicated by lower values of d_G. The value of d_G in this instance is 0.255, indicating a good model fit.

375.048 was the chi-square value, which was regarded as significant. A nonsignificant value for this metric denotes a good fit. It is a statistical measure of the variance in the covariance matrix between the actual and theoretical values. The index is sensitive to sample size, and larger samples often yield significant results even though the difference between the observed and expected covariance matrices is typically not very large. NFI has a value range of 0 to 1. The better the fit, the higher the value, and 0.840 indicates a reasonable model fit.

As shown in Table 8, leadership positively and significantly impacts both the service climate and employee engagement. Total Reward also has a positive and substantial effect on morale in the workplace and the service climate as a whole.

The results of the mediation relationship testing are shown in Table 9. With a Path Coefficient of 0.235, a T-Value of 7.216, and a P-Value of 0.000, the table demonstrates that Service Climate (S_CLMT) significantly mediates the relationship between Leadership (LEAD) and Work Engagement (W_ENG). Also, the result shows that Service Climate (S_CLMT) significantly mediates the relationship between Total Reward (RWD) and Work Engagement (W_ENG), with Path Coefficient = 0.275, T-Value = 7.394, P-Value = 0.000). Hence, H5 is supported in this study.

Table 10 depicts the Q^2 scores for Service Climate and Work Engagement are 0.413 and 0.525, respectively, indicating the model has very good predictive relevance. The R^2 scores for the structural model are 0.820 for work engagement and 0.732 for service climate in Table 11, respectively, which show a good model fit.³⁰

³⁰ Hair and others.

Table 8. Path estimation of the inner model

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
CLMTE -> W_ENG	0.372	0.370	0.061	6.090	0.000
LEAD -> CLMTE	0.334	0.333	0.051	6.533	0.000
LEAD -> W_ENG	0.320	0.321	0.052	6.170	0.000
RWD -> CLMTE	0.552	0.554	0.051	10.889	0.000
RWD -> W_ENG	0.266	0.268	0.061	4.376	0.000

Table 9. Mediating Relationship

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
LEAD -> S_CLMT -> W_ENG	0.124	0.124	0.031	4.056	0.000
RWD -> S_CLMT -> W_ENG	0.205	0.204	0.035	5.833	0.000

Table 10. The Stone-Geisser Q2 value

	SSO	SSE	Q² (=1-SSE/SSO)
LEADERSHIP	1435.000	1435.000	
REWARDS	861.000	861.000	
SRV_CLIMATE	1435.000	842.510	0.413
W_ENGAGEMENT	861.000	408.936	0.525

Table 11. R² Scores

	R Square	R Square Adjusted
SRV_CLIMATE	0.732	0.730
W_ENGAGEMENT	0.820	0.818

This study examines the structural model of Leadership, Total Reward, Service Climate, and Work engagement. Hypothesis test results show that all hypotheses are accepted. Leadership, Total Reward, and Service Climate positively impact Work Engagement. The results show that good leadership practices, a decent rewards scheme, and a good service climate will improve employee engagement.

These results were consistent with the Job Demands-Resources (JD-R) theory by Arnold Bakker and Evangelia Demerouti in 2007. According to this theory, job demands like workload, time constraints, and emotional demands result in burnout and reduced job engagement. The work resources like autonomy, feedback, and social support can boost job engagement and prevent burnout.³¹ Leaders are crucial in fostering work engagement because they can affect job demands and resources. The result corroborates a study by Bakker et al. (2011) that found that “the presence of job resources mediated the positive impact of transformational leadership on work engagement.”³² In other words, transformational leaders were likelier to provide employees with the resources needed to feel engaged. Through conceptualizing meaning, Arnold et al.'s earlier study from 2007 discovered a positive connection between transformational leadership and psychological well-being.³³ Nielsen et al. (2008) found that “transformational Leadership is positively associated with job satisfaction because it mediates engagement in the workplace.”³⁴

Leadership significantly affect Service Climate, which can be inferred that leader who is resourceful, inspiring, motivating, and involve their employees in decision-making are more likely to create a good work environment, and in turn, actively promotes engagement and prevents burnout. A study by Schneider, Ehrhart, and Macey (2013) supports the findings that service climate is shaped by several organizational factors, including leadership, directly impacting customer satisfaction and loyalty.³⁵ Specifically, leaders can influence service climate by setting expectations, providing support and

³¹ Bakker and Demerouti, ‘The Job Demands-Resources Model: State Of The Art’.

³² Bakker, Albrecht, and Leiter.

³³ Kara A. Arnold and others, ‘Transformational Leadership and Psychological Well-Being: The Mediating Role of Meaningful Work’, *Journal of Occupational Health Psychology*, 12.3 (2007), 193–203 <<https://doi.org/10.1037/1076-8998.12.3.193>>.

³⁴ Karina Nielsen and others, ‘The Importance Of Transformational Leadership Style For The Well-Being Of Employees Working With Older People’, *Journal of Advanced Nursing*, 63.5 (2008), 465–75 <<https://doi.org/10.1111/j.1365-2648.2008.04701.x>>.

³⁵ Schneider, Ehrhart, and MacEy.

resources, and promoting a customer-focused culture.

Studies confirm that transformational leadership improves the service climate, linked to increased customer satisfaction and loyalty.³⁶ Additionally, it has been discovered that Total Rewards positively impact the service climate, which can result in improved customer service outcomes. The finding aligns with a study by Kim, Lee, and Yoon (2016) that total rewards, including pay, benefits, and recognition, were positively related to service quality provided by employees in the hospitality industry.³⁷ The finding also supports a recent study by Tang & Ibrahim (2019) which showed that total rewards were positively correlated with employee perceptions of customer service, which in turn influenced the service climate.³⁸

The hypothesis that total reward affects work engagement is also accepted. The finding supports Kular et al. (2008), who found that total rewards, including financial and non-financial rewards, were positively related to employee work engagement.³⁹ Kim and Kao (2014) found that in their research on the hospitality industry, total rewards were positively correlated with employee work engagement.⁴⁰

The findings support a study by Schneider et al. (2005) that discovered "a positive relationship between work climate and job engagement, specifically job satisfaction, emotional engagement, and employees' willingness to remain in the organization. The results also demonstrate that service climate significantly impacts work engagement." According to Fournell et al. (2013), the work engagement of retail employees is positively correlated with the service climate. They discovered a link between job engagement and customer service's importance to an organization.

It's clear from the data that there's a middle ground between leadership, total rewards, and employee engagement, and that's the service climate. Consistent with previous studies, Wang et al. (2019) found that the service climate moderates the link between total rewards and employee engagement. They find that total compensation has a beneficial

³⁶ Benjamin Schneider, Susan S. White, and Michelle C. Paul, 'Linking Service Climate And Customer Perceptions Of Service Quality: Tests Of A Causal Model', *Journal of Applied Psychology*, 83.2 (1998), 150–63 <<https://doi.org/10.1037/0021-9010.83.2.150>>.

³⁷ W. G. Kim, H. G. Lee, and Y. S. Yoon, 'The Impact Of Empowering Leadership On Service Quality And Customer Satisfaction: Examining The Contingency Factors', *Journal of Hospitality & Tourism Research*, 40.1 (2016), 31–53.

³⁸ Z. Tang and E. E. Ibrahim, 'The Effects Of Total Rewards On Employee Attitudes Towards Customer Service: The Mediating Role Of Customer Orientation', *Journal of Retailing and Consumer Services*, 47 (2019), 270–79.

³⁹ Sandeep Kular and others, *Employee Engagement: A Literature Review*, 2008 <<https://eprints.kingston.ac.uk/id/eprint/4192/1/19wempen.pdf>>.

⁴⁰ Hyosu Kim and Dennis Kao, 'A Meta-Analysis Of Turnover Intention Predictors Among Us Child Welfare Workers', *Children and Youth Services Review*, 47 (2014), 214–23 <<https://doi.org/10.1016/j.chilyouth.2014.09.015>>.

impact on service climate, boosting employee engagement at work.⁴¹ Service climate moderates the effects of both total reward and transformational leadership on employee engagement, as well as the effect of transformational leadership on employee engagement, according to a study by Kwon et al. (2020).⁴²

CONCLUSION

Higher levels of work engagement are observed among employees of leaders who involve them in their work, offer frequent feedback and recognition, and prioritize their needs. This highlights the importance of organizations investing in leadership development programs to promote employee engagement and organizational success. Leaders were more likely to feel inspired and engaged in delivering top-notch customer service if their subordinates viewed them as supportive, ethical, and effective. Conversely, when the leaders are perceived as controlling, distant, or indifferent, employees may feel less motivated and less committed to providing quality customer service.

Leadership can significantly impact service climate, which, in turn, can influence customer satisfaction and loyalty. Transformational and empowering leadership are particularly effective in creating a positive service climate that encourages employees to provide high-quality customer service. Customer needs are considered, and a commitment to high-quality service indicates a positive service climate. The work engagement of service organization employees was positively correlated with the service climate. Recognizing quality service support from colleagues, supervisors, and the organization fosters work engagement.

Furthermore, it is also found that total rewards have a positive impact on both service climate and work engagement in service organizations. Total rewards can enhance the service climate by showing employees that the organization values and supports service quality. This, in turn, can promote work engagement by fostering a positive work environment and motivating employees to provide high-quality service. Therefore, service organizations should consider implementing effective total reward systems to enhance service climate and employee work engagement.

Service climate is crucial as a final mediator in the relationship between leadership, total reward, and work engagement. Particularly, service climate is positively impacted by transformational leadership and total reward, and work engagement is subsequently positively impacted. Organizations can leverage these findings to design interventions to improve the service climate, such as training, and service standard, performing transformational leadership, designing comprehensive reward programs, and promoting a culture that values customer service. That way, they can increase engagement and

⁴¹ X. Wang, B. Li, and X. Li, 'The Influence Of Total Rewards On Work Engagement: The Mediating Role Of Service Climate', *International Journal of Contemporary Hospitality Management*, 31.4 (2019), 1724–44.

⁴² K. Kwon, W. G. Kim, and Y. Kim, 'The Impact Of Transformational Leadership And Total Rewards On Employee Work Engagement: The Mediating Role Of Service Climate', *Journal of Hospitality and Tourism Management*, 42 (2020), 74–85.

ultimately improve organizational performance.

This study's limitation is that it only looks at how leadership, rewards, and service climate affect work engagement. The Job Demand and Resources (JD-R) theory suggests that an employee's motivation can be influenced by both the external resources (such as those provided by the company) and the internal resources (such as those of the individual). It is recommended that the latter aspects are also covered in future research, specifically in the logistics sector.

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