

The Effect of Compensation System and Transformational Leadership on Employee Performance Mediated by Employee Engagement at PT Power Asetindo Selaras

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Article history

Submitted: 2026/06/01; Revised: 2026/07/11; Accepted: 2026/09/15

Abstract

This study aims to analyze the effect of the compensation system and transformational leadership on employee performance, with employee engagement as a mediating variable in the Marketing Division of PT Power Asetindo Selaras. This research is motivated by the decline in total auction results despite an increase in auction activities and units sold, indicating suboptimal employee effectiveness and productivity. A quantitative method with an explanatory approach was employed. The population consisted of all 51 employees in the Marketing Division, using a census or saturated sampling method. Data were collected through an online Likert-scale questionnaire. Data analysis was conducted using Structural Equation Modeling (SEM) with the Partial Least Squares (PLS) approach through SmartPLS version 4.1.1.6. The analysis included the measurement model (outer model), structural model (inner model), and hypothesis testing. The results show that compensation system has no significant effect on employee performance, while transformational leadership has a positive and significant effect. Both compensation system and transformational leadership positively and significantly affect employee engagement. Employee engagement also positively and significantly affects employee performance. Furthermore, employee engagement fully mediates compensation system and partially mediates transformational leadership effects on performance.

Keywords

Compensation System, Transformational Leadership, Employee Performance, Employee Engagement



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INTRODUCTION

Human resources (HR) represent one of the most important assets of an organization because they play a direct role in carrying out operational activities and achieving organizational objectives. Organizational success is determined not only by the availability of resources but also by the quality of employee performance in carrying out assigned responsibilities and achieving established targets. Employee performance reflects individual productivity, effectiveness, and contribution to organizational objectives. Therefore, effective human resource management is essential for organizations to respond to increasingly

competitive and complex business environments. Problems such as declining productivity, failure to achieve targets, and low employee involvement may hinder an organization's ability to maintain and improve its performance.

These performance issues are particularly relevant in the asset auction service industry, where companies are required to optimize both operational activities and sales outcomes. PT Power Asetindo Selaras is a National Private Auction House established in 2009 that provides professional auction services for various types of assets, including property, automotive units, furniture, office equipment, and machinery. The company operates eight pools (warehouses) located in Jakarta, Serang, Surabaya, Lampung, Baturaja, Bengkulu, Palembang, and Makassar. To support its business activities, the company utilizes an application-based auction system through PASBid-Automotive Auction and the Lelang.go.id portal for mortgage execution auctions. Within this business context, the Marketing Division plays a strategic role in increasing the number of auction activities, units sold, and total auction proceeds.

However, internal data from PT Power Asetindo Selaras for the 2024–2025 period reveal a phenomenon that requires further attention. In 2024, the company conducted 998 auction activities, with 123 units sold and total auction proceeds amounting to IDR 316.23 billion. In 2025, the number of auction activities increased to 1,300, representing an increase of approximately 30%, while the number of units sold increased to 154 units, or approximately 25%. Despite these increases, total auction proceeds decreased to IDR 283.79 billion, representing a decline of approximately 10.3% compared with the previous year. This phenomenon indicates that an increase in operational activities and the number of units sold has not necessarily been accompanied by greater effectiveness in generating sales value. Consequently, the success of the Marketing Division cannot be assessed solely based on the number of auction activities conducted or units sold, but also on employees' ability to optimize the sales value generated from each auction activity. The decline in total auction proceeds therefore indicates potential room for improvement in employee performance, particularly in maximizing the commercial value of auction activities.

One factor that may influence employee performance is the compensation system. Compensation represents the rewards provided by an organization to employees in return for their contributions, including both financial and non-financial forms. An appropriate compensation system is expected to encourage employees to improve their performance. Bonifasia (2024) found that compensation can improve employee performance. However, Febriani (2023) reported that compensation did not have a significant effect on employee performance. Similarly, Sulastri (2020) found that compensation did not have a direct effect on performance without the presence of another mediating variable. These inconsistent findings indicate that the relationship between compensation and employee performance remains inconclusive and requires further investigation.

Transformational leadership is another factor that may influence employee performance. Transformational leadership emphasizes a leader's ability to inspire, motivate,

provide direction, and encourage employees to achieve higher levels of performance through organizational vision and values. In a target-oriented work environment such as the Marketing Division, leaders' ability to provide support and clear direction is particularly important. Milka et al. (2025) found that transformational leadership contributes to increased employee motivation, loyalty, and participation. Manuk et al. (2024) likewise demonstrated that transformational leadership has a positive and significant effect on employee performance. In contrast, Kurniati and Rojuaniah (2023) found that transformational leadership did not have a significant effect on employee performance. These inconsistent findings suggest that the relationship between transformational leadership and employee performance may involve other mechanisms or intervening factors.

One factor that may help explain this relationship is employee engagement. Employee engagement refers to employees' emotional attachment to and involvement in their work and organization. Employees with high levels of engagement tend to demonstrate stronger emotional commitment to their work, making them more responsive to leadership direction and more motivated to contribute to organizational goals. Kurniawati and Mulyanto (2024) found that employee engagement can serve as a mediating variable in the relationship between organizational factors and employee performance. Conversely, Mulyani et al. (2024) reported that employee engagement did not significantly affect employee performance and was unable to mediate relationships among the variables. These contrasting findings demonstrate that the role of employee engagement as a mechanism linking organizational factors to employee performance requires further empirical examination.

Previous studies have also demonstrated relationships between compensation, transformational leadership, and employee engagement. Saputra and Suwandana (2022) found that fair and appropriate compensation can increase employees' attachment to an organization. Meanwhile, Putri and Nugrohoseno (2025) demonstrated that transformational leadership can increase employee engagement through the support provided by leaders. These findings suggest that compensation and transformational leadership may influence employee performance not only directly but also indirectly through increased employee engagement. Although relationships among compensation systems, transformational leadership, employee engagement, and employee performance have been widely examined, previous studies have produced inconsistent findings. Furthermore, empirical research specifically examining the mediating role of employee engagement in the relationship between compensation systems and transformational leadership and employee performance within the Marketing Division of PT Power Asetindo Selaras remains limited. This condition represents a research gap that warrants further investigation, particularly to develop a more specific understanding of the mechanisms underlying employee performance in the asset auction service industry.

Based on the identified phenomenon and research gap, this study aims to analyze the effect of the compensation system and transformational leadership on employee

performance, with employee engagement serving as a mediating variable, in the Marketing Division of PT Power Asetindo Selaras. The study is expected to provide empirical evidence regarding the direct and indirect relationships among these variables and to clarify the role of employee engagement in strengthening employee performance.

METHODS

This study employed a quantitative research method with an explanatory approach to examine the causal relationships among the variables. The research used a causal survey design, with data collected through a structured questionnaire distributed to employees of the Marketing Division of PT Power Asetindo Selaras. The study population consisted of 51 employees of the Marketing Division. Because the population was relatively small and accessible in its entirety, a census or saturated sampling technique was employed, whereby all 51 employees were included as respondents. The research focused on the Marketing Division because its employees are directly involved in target-oriented marketing activities and face dynamic workloads and performance demands. The study was conducted at the company's head office located at Rukan Botanic Junction, Mega Kebon Jeruk, West Jakarta.

Data were collected using a structured questionnaire administered online through Google Forms and distributed via WhatsApp to the respondents. The questionnaire measured four research constructs: compensation system, transformational leadership, employee engagement, and employee performance. All items were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The compensation system was measured through salary, incentives/bonuses, allowances, and employee welfare guarantees; transformational leadership through idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration; employee engagement through vigor, dedication, and absorption; and employee performance through work quality, work quantity, responsibility, and task completion. The measurement instrument was evaluated for validity and reliability. Convergent validity was assessed using factor loadings and Average Variance Extracted (AVE), while discriminant validity was evaluated using the Fornell–Larcker criterion. Construct reliability was assessed using Cronbach's alpha and composite reliability, with values above 0.70 generally considered acceptable.

The collected data were analyzed using Structural Equation Modeling with the Partial Least Squares approach (PLS-SEM) using SmartPLS version 4.1.1.6. PLS-SEM was selected because it is suitable for explanatory and predictive models, can accommodate relatively small samples, and does not require normally distributed data. The analysis consisted of model specification, evaluation of the measurement model (outer model), evaluation of the structural model (inner model), and hypothesis testing. The outer model was assessed through indicator loadings, convergent validity, discriminant validity, AVE, Cronbach's alpha, and composite reliability. The inner model was evaluated using the coefficient of determination (R^2), predictive relevance (Q^2), and path coefficients. The hypotheses were tested using a 5% significance level, with a hypothesis considered

supported when the t-statistic exceeded 1.96 or the p-value was below 0.05. The analysis was conducted to examine the direct effects of the compensation system and transformational leadership on employee performance, their effects on employee engagement, the effect of employee engagement on performance, and the mediating effects of employee engagement on the relationships between the two independent variables and employee performance.

RESULTS AND DISCUSSION

The hypothesis test is used to determine whether there is an influence of exogenous variables on endogenous variables directly or indirectly through mediation variables. The hypothesis test in this study uses p-value to determine the level of significance of the influence between variables. The results of the hypothesis test of the direct influence path between variables in this study are shown in the table below:

Table 1 Direct Effect Test Results

Hipotesis	Variable Relationships	Path Coefficient	T Count	P Values	Remarks
H1	Employee Performance Compensation → System	0.063	0.405	0.343	insignificant
H2	Transformational Leadership → Employee Performance	0.251	2.091	0.018	signifikan
H3	Employee Engagement → Compensation System	0.535	5.275	0.000	signifikan
H4	Transformational Leadership → Employee Engagement	0.327	3.028	0.001	signifikan
H5	Employee Engagement → Employee Performance	0.550	3.881	0.000	signifikan

Source: Primary data, processed by SmartPLS (2026)

Based on the results of the analysis using SmartPLS, it is known that the compensation system does not have a significant effect on employee performance. On the contrary, transformational leadership has a significant effect on employee performance. In addition, the compensation system and transformational leadership have also been shown to have a significant effect on employee engagement. Furthermore, employee engagement has a significant influence on employee performance. In the indirect influence test, the results showed that the compensation system had a significant effect on employee performance through employee engagement. This means that employee engagement can be a mediating variable in the relationship between the compensation system and employee performance. Likewise, transformational leadership has a significant effect on employee performance through employee engagement, so employee engagement is proven to mediate the relationship between transformational leadership and employee performance.

To find out the type of mediation that occurs, this study refers to the opinion of Hair et al. (2021). Complete mediation occurs when the direct influence is not significant, but the indirect influence through the mediation variable is significant. On the other hand, partial

mediation occurs when the direct and indirect influences are equally significant. The results of the examination of the nature of the mediation can be seen in Table 2.

Table 2 Indirect Effect Test Results

Influence of Mediation Variables			Path Coefficients			Nature of Mediation	Remarks
Eksogen	Mediation	Endogenous	c	d	a		
EN	EE	KK	0.535 (S)	0.550 (S)	0.063 (TS)	Complete/Full	Signifikan
KT	EE	KK	0.327 (S)	0.550 (S)	0.251 (S)	Partial	Signifikan

Source: Primary data, processed by SmartPLS (2026)

Description:

Stuart O'T = Compensation System

KT = Transformational Leadership

EE = Employee Engagement

CD = Employee Performance

c = coefficient of the path of the exogenous variable to the mediating variable

d = coefficient of mediating pathway to endogenous

a = exogenous to endogenous pathway coefficient

Based on Table 4.16 above, it can be explained that employee engagement is able to fully mediate the influence of the compensation system on employee performance. This is shown by the significant coefficients of pathways c and d, while the coefficients of pathways a are insignificant. These results show that the compensation system does not have a direct effect on employee performance, but can improve performance if it is first able to increase employee engagement. Furthermore, employee engagement is also able to partially mediate the influence of transformational leadership on employee performance. This is shown by the coefficients of pathways c, d, and a, which are all significant. These results show that transformational leadership can improve employee performance both directly and indirectly through increasing employee engagement. Thus, the better the implementation of transformational leadership, the higher the employee involvement in work so that the resulting performance will also increase. Furthermore, the direct and indirect relationship between variables can be explained as shown in Figure 1 below:

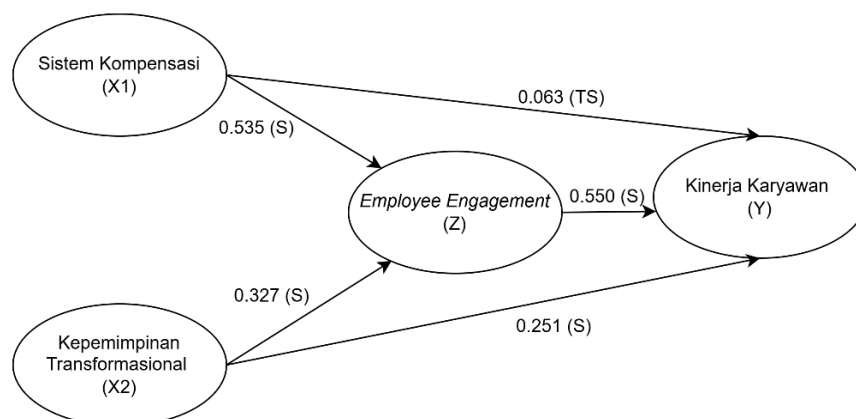


Figure 1 Hypothesis Test Results

Description:

S = Signifikan

TS = Insignifikan

Regarding its effect on employee engagement, the figure above shows that the compensation system and transformational leadership both have a significant effect. However, the compensation system has a larger path coefficient than transformational leadership. This means that the compensation system plays a greater role in increasing employee engagement than transformational leadership. Although both variables are equally influential, employee engagement tends to increase faster when companies prioritize a fair compensation system and maintain a transformational leadership style. Based on Figure 4.1, it can be explained that employee engagement has the highest path coefficient compared to the compensation system and transformational leadership in influencing employee performance. This shows that employee engagement is the dominant factor in improving employee performance. Thus, organizations need to manage the factors that form employee engagement consistently, because when employees feel engaged and emotionally attached to their work, their performance will increase significantly. Based on the results of the SmartPLS analysis of direct and indirect influences, the results of the hypothesis test can be explained below:

H1: The Compensation System has no significant effect on Employee Performance

The results of the test of the effect of the compensation system on employee performance obtained a positive path coefficient of 0.063 and a p-value of 0.343. A p-value greater than 0.05 indicates that the compensation system has no significant effect on employee performance, so hypothesis 1 (one) is rejected. Although the path coefficient is positive, the effect is not statistically strong enough to be acceptable.

H2: Transformational Leadership has a Significant Effect on Employee Performance

The results of the influence test between transformational leadership and employee performance obtained a path coefficient of 0.251 with a p-value of 0.018. A p-value of less than 0.05 indicates that there is a significant influence between transformational leadership and employee performance, so hypothesis 2 (two) is accepted. This means that the higher the transformational leadership that is applied, the more employee performance will increase.

H3: Compensation System has a significant effect on Employee Engagement

The results of the test of the influence of the compensation system on employee engagement obtained a path coefficient of 0.535 with a p-value of 0.000. This shows that there is a significant influence between the compensation system and employee engagement, so hypothesis 3 (three) is accepted. This means that the better the compensation system implemented by the company, the more employee engagement will increase.

H4: Transformational Leadership has a significant impact on Employee Engagement

The results of the test of the influence of transformational leadership on employee

engagement obtained a path coefficient of 0.327 with a p-value of 0.001. This value shows that transformational leadership has a significant effect on employee engagement. Thus, hypothesis 4 (four) is accepted. This means that the stronger the transformational leadership style applied, the more employee engagement will increase.

H5: Employee Engagement has a Significant Effect on Employee Performance

The results of the analysis of the influence of employee engagement on employee performance obtained a path coefficient of 0.550 with a p-value of 0.000. This figure shows that employee engagement has a significant effect on employee performance, so hypothesis of 5 (five) is accepted. This means that the higher employee engagement, the higher the employee performance.

H6: The Compensation System has a significant effect on Employee Performance mediated by Employee Engagement

The results of the analysis showed that the influence of the compensation system on employee engagement was obtained with a path coefficient of 0.535 with a p-value of 0.000. Meanwhile, the effect of employee engagement on employee performance was obtained with a path coefficient of 0.550 with a p-value of 0.000. The results for the indirect influence showed a coefficient of 0.294 with a p-value of 0.004 which was significant. However, because the direct influence of the compensation system on employee performance was not significant (p-value $0.343 > 0.05$), hypothesis 6 (six) was accepted, with employee engagement mediating the effect of the compensation system on employee performance in full. This means that the compensation system will not be able to improve employee performance directly, but must go through increasing employee engagement first.

H7: Transformational Leadership has a significant effect on Employee Performance mediated by Employee Engagement

The results of the analysis showed that the influence of transformational leadership on employee engagement was obtained with a path coefficient of 0.327 with a p-value of 0.001. Meanwhile, the influence of employee engagement on employee performance was obtained with a path coefficient of 0.550 with a p-value of 0.000. The results for the indirect influence showed a coefficient of 0.180 with a p-value of 0.011 which was significant. Because the direct influence of transformational leadership on employee performance was also significant (p-value $0.018 < 0.05$), hypothesis 7 (seven) was accepted, with employee engagement partially mediating the influence of transformational leadership on employee performance. This means that transformational leadership can improve employee performance both directly and through increasing employee engagement first.

Interpretation of Research Results

In this section, we discuss the measurement model that refers to each variable. This measurement model (outer model) pays attention to the outer loading value to determine the level of importance of the indicator in each variable. The outer loading value shows the weight of each variable measuring indicator. An indicator with a high outer loading indicates that the indicator is the strongest (dominant) variable gauge or can be interpreted

as an important indicator. In addition, the mean value will also be discussed which shows the actual condition of each indicator according to the respondent's assessment. A high mean value can be interpreted as a preferred indicator, then the hypothesis formulated will be discussed.

The Effect of the Compensation System on Employee Performance

The results of this analysis show that the compensation system does not have a significant influence on employee performance. This means that the amount of compensation received by employees does not necessarily directly improve employee performance in the Marketing Division of PT Power Acetindo Selaras. However, this result does not mean that the compensation system is not important for employees. Based on the results of the descriptive analysis, the salary indicator obtained the highest average score, which is 4.24 which is included in the very high category. This shows that most employees feel that the salary they receive is in accordance with the workload and paid on time. However, satisfaction with the compensation system has not been able to have a direct influence on performance improvement. This shows that providing good compensation alone is not enough to improve employee performance. Employees may need other factors that can encourage them to work more optimally, such as employee engagement, motivation from within, and a supportive work environment. Therefore, companies not only need to provide fair compensation, but also create working conditions that can increase employee morale and engagement.

The results of this study are in line with Febriani (2023) who stated that compensation does not have a significant effect on employee performance. Sulastris (2020) also found that compensation does not have a direct influence on performance without other variables that act as mediators. However, the results of this study are different from Bonifasia (2024) who said that compensation has a positive and significant effect on employee performance. The difference in results may be due to differences in respondent characteristics, industry types, and organizational conditions that are the object of the research. Based on these results, it can be concluded that the compensation system in the Marketing Division of PT Power Acetindo Selaras is running well and needs to be maintained. However, companies also need to pay attention to other factors that are more influential in improving employee performance. In this study, employee engagement is proven to be a more dominant factor in improving performance. Therefore, in addition to maintaining the existing compensation system, companies are also advised to increase employee engagement through good communication, providing opportunities to develop, and creating a comfortable and supportive work environment.

The Influence of Transformational Leadership on Employee Performance

The results of the analysis show that transformational leadership has a significant influence on employee performance. The direction of the relationship shown is positive, and the results of statistical testing prove that the relationship is significant. This means that the better the application of transformational leadership styles in the work environment, the

higher the performance shown by the employees of the Marketing Division of PT Power Acetindo Selaras. This shows that the role of leaders is very important in encouraging employees to work more optimally. Leaders who are able to inspire, provide clear direction, and encourage employees to think creatively and innovatively are able to improve employee performance directly. Transformational leadership styles make employees feel more motivated, valued, and have clear goals at work, which ultimately has an impact on improving productivity and work quality.

Based on the results of the descriptive analysis, all transformational leadership indicators were in the very high category, with average scores ranging from 4.35 to 4.41. The ideal influence indicator obtained the highest score, which indicates that employees value their leaders as having integrity and being able to be role models at work. This becomes an important foundation in building employees' trust and respect for their leaders, which in turn encourages them to work harder and commit to achieving organizational goals. The results of this study are in line with Milka et al. (2025) and Manuk et al. (2024) who stated that transformational leadership has a positive and significant effect on employee performance. Transformational leadership is not only able to increase employee motivation and loyalty, but also encourage their active participation in achieving company targets.

Thus, transformational leadership has proven to be an important factor in improving employee performance in the Marketing Division of PT Power Acetindo Selaras. Companies are advised to continue to develop and maintain a transformational leadership style, as inspiring and supportive leaders can be key in encouraging employees to achieve higher performance. In addition, companies can also provide leadership training to managers and supervisors so that transformational leadership skills can continue to be improved and have a wider impact on all employees.

The Effect of the Compensation System on Employee Engagement

The results of this analysis show that the compensation system has a significant influence on employee engagement. This means that the better the compensation system implemented by the company, the higher the level of employee engagement of employees of the Marketing Division of PT Power Acetindo Selaras. These results show that compensation not only functions as a tool to meet economic needs, but also has an important role in building employees' emotional attachment to their work. When employees feel that the compensation they receive is in accordance with the contribution given, they will tend to be more enthusiastic, more dedicated, and more fully involved in their work. This is in line with the theory of social exchange, where employees will respond positively in return for the positive treatment received from the organization. Based on the results of the descriptive analysis, all indicators of the compensation system are in the high category. The salary indicator obtained the highest average score, which indicates that employees feel that the salary received is in accordance with the workload and is given on time. Satisfaction with this aspect of salary is a strong initial foundation for the growth of a sense of attachment to work and the organization, although other aspects such as benefits and welfare guarantees

also contribute.

The results of this study are in line with Zanuar et al. (2025) who show that compensation has a positive and significant effect on employee engagement. Similarly, Mustofa et al. (2026) and Rahmana et al. (2022) also found that compensation has a significant positive influence on employee engagement. These results reinforce that the provision of fair and appropriate compensation is one of the effective strategies to increase employee work engagement, as compensation not only meets basic needs, but also reflects the form of reward and fairness of the organization. Thus, to increase employee engagement of employees of the Marketing Division of PT Power Acetindo Selaras, the company needs to continue to maintain and develop a compensation system that is fair, competitive, and in accordance with employee expectations. In addition to the salary aspect, the company can also pay attention to the aspects of incentives, benefits, and welfare guarantees that are more varied and responsive to employee needs. Thus, employee attachment can continue to increase and have a positive impact on achieving organizational goals.

The Influence of Transformational Leadership on Employee Engagement

The results of this analysis show that transformational leadership has a significant influence on employee engagement. This means that the stronger the application of transformational leadership styles in the work environment, the higher the level of employee engagement of employees of the Marketing Division of PT Power Acetindo Selaras. This shows that leaders who are able to inspire, motivate, and pay attention to subordinates play an important role in building employees' emotional attachment to their work. Transformational leaders not only provide direction, but are also able to create a sense of trust and security for employees, so that they feel more emotionally connected to work and the organization. Employees who feel cared for and supported by their leaders will be more enthusiastic, more dedicated, and more fully involved in carrying out their duties. Based on the results of the descriptive analysis, all indicators of transformational leadership are in the very high category, with the highest average in the ideal influence indicator. This shows that employees value their leaders as having integrity, exemplary, and good consistency. When leaders are able to be role models and show high commitment, employees will more easily feel trusted and inspired to give their best in their work. This condition then encourages the growth of a sense of attachment and deep emotional involvement.

The results of this study are in line with Putri & Nugrohoseno (2025) who stated that transformational leadership has been proven to be able to increase employee engagement through the support provided by leaders. Jiatong et al. (2022) and Ntseke et al. (2022) found that transformational leadership has a strong relationship with employee passion and dedication. These findings reinforce that leaders who are role models, provide intellectual stimulation, and motivate in an inspiring way will make employees feel valued and more attached to their work and organization. That way, to increase employee engagement of employees of the Marketing Division of PT Power Acetindo Selaras, the company needs to continue to strengthen the role of leaders in implementing transformational leadership

styles. Leaders not only function as task managers, but also as inspirations and supporters for their subordinates. Therefore, the company can provide leadership training to managers and supervisors so that their transformational leadership skills can continue to be developed, so as to be able to create a work environment that supports optimal employee engagement.

The Effect of Employee Engagement on Employee Performance

The results of this analysis show that employee engagement has a significant influence on employee performance. The direction of the relationship shown is positive, and the results of statistical testing prove that the relationship is significant. This means that the higher the level of employee engagement, the higher the performance shown by employees of the Marketing Division of PT Power Acetindo Selaras. These results show that employees' emotional and psychological involvement in their work is a key factor in driving performance improvement. Employees who have high work morale, feel proud of their work, and are able to fully concentrate on carrying out tasks tend to show better productivity and work quality. When employees are truly emotionally engaged, they not only work to fulfill obligations, but because there is a sense of belonging and responsibility that drives them to deliver the best results.

From the results of the descriptive analysis, all employee engagement indicators are in the high category, with the highest average in the indicators of dedication and appreciation. This shows that employees feel proud to be part of the marketing division, have a high commitment in carrying out their duties, and are able to fully concentrate and be fully involved in their work. This condition is an important capital for the company, because employees who have high dedication and appreciation tend to be more focused, more productive, and contribute more to achieving organizational goals. The results of this study are in line with Hidayat (2023), Pratiwi et al. (2023), and Rustina et al. (2025) who stated that employee engagement has a positive and significant effect on employee performance. Employees who have high work attachment will show greater enthusiasm, dedication, and contribution in carrying out their work, which ultimately has an impact on improving performance.

Employee engagement has proven to be a very important factor in improving employee performance in the Marketing Division of PT Power Acetindo Selaras. Companies are advised to continue to maintain and increase employee engagement through various ways, such as creating a supportive work environment, providing sincere appreciation, and providing opportunities for employees to grow and actively contribute. When employees feel engaged and valued, they will be more motivated to work optimally and make the best contribution to the achievement of organizational goals.

The Effect of the Compensation System on Employee Performance dimedias Employee Engagement

The results show that employee engagement is proven to be able to fully mediate the relationship between the compensation system and employee performance. These results show that the compensation system does not have a direct effect on employee performance.

However, when the compensation system is able to increase employee engagement, its effect on performance becomes significant. In other words, compensation will have an impact on improving performance if it is first able to increase employee involvement in their work. These results show that providing compensation alone is not enough to improve employee performance. Even if employees are satisfied with the compensation received, it does not necessarily make them work better. Compensation will only have a positive impact if it is able to foster a sense of belonging to the organization, increase work morale, and encourage employee dedication in carrying out their work. Therefore, employee engagement acts as a liaison that explains how compensation can improve employee performance. When employees feel emotionally attached to their work, they will be more motivated to give their best performance.

The results of the descriptive analysis also show that the salary indicator obtained the highest average score on the compensation system variable. This shows that employees feel that the salary received is appropriate and a form of appreciation from the company. However, the financial reward is not enough to improve performance directly. The company also needs to create conditions that can increase employee involvement, so that the compensation provided can have a greater impact on performance improvement. The results of this study are in line with Setyawati et al. (2023) who stated that compensation does not always have a direct effect on employee performance, but can improve performance through employee engagement as a mediating variable. The same results Claudia et al. (2024) show that compensation has a positive and significant effect on performance through employee engagement. In addition, Arianti et al. (2022) and Susila (2023) also prove that employee engagement can be a variable that bridges the relationship between compensation and employee performance.

However, the results of this study are different from some previous studies that concluded that compensation can directly improve performance without going through mediation variables. The difference in results may be influenced by the characteristics of the respondents and the organizational environment studied. In the Marketing Division of PT Power Acetindo Selaras, employees seem to be more motivated to improve performance when they feel engaged, appreciated, and have a strong bond with work and the company, not just because they receive good compensation. Based on these results, it can be concluded that employee engagement mediates a full relationship between the compensation system and employee performance in the Marketing Division of PT Power Acetindo Selaras. Therefore, the company not only needs to maintain a fair and competitive compensation system, but also needs to increase employee engagement through good communication, providing opportunities for growth, rewarding employee contributions, and creating a supportive work environment. With increased employee engagement, the compensation provided by the company will be more effective in encouraging employee performance improvement.

The Influence of Transformational Leadership on Employee Performance Mediated by

Employee Engagement

Based on the results of employee engagement research, it is proven to be able to partially mediate the influence of transformational leadership on employee performance. These results show that transformational leadership not only has a direct effect on employee performance, but also has an indirect effect through increasing employee engagement. In other words, leaders who apply a transformational leadership style can improve employee performance both directly and by increasing employee involvement in their work. This shows that leaders who are able to provide inspiration, motivation, and role models will make employees feel more appreciated, supported, and have a stronger bond with their work. This condition encourages employees to work more passionately, make greater contributions, and ultimately improve their performance.

The results of the descriptive analysis showed that all transformational leadership indicators were in the very high category, with the highest average score in the ideal influence indicator. This shows that employees consider their leaders to have integrity, be role models, and be able to build trust. This condition also increases employee engagement, so that the influence of leadership on performance becomes stronger. The results of this study are in line with Helalat et al. (2025), Puspaningrum (2025), Zaw et al. (2022), and Kang et al. (2025) who stated that employee engagement is able to mediate the relationship between transformational leadership and employee performance. However, unlike the compensation system which only affects through mediation, transformational leadership in this study has also been shown to have a direct influence on performance. This shows that the role of leaders is very important because it can directly affect employees' attitudes and work behaviors while increasing their engagement at work.

Based on these results, it can be concluded that employee engagement partially mediates the relationship between transformational leadership and employee performance in the Marketing Division of PT Power Acetindo Selaras. Therefore, companies need to continue to maintain and develop a transformational leadership style through training and development for managers and supervisors. Thus, leaders are not only able to improve performance directly, but can also build employee engagement which will ultimately encourage continuous employee performance improvement.

CONCLUSION

The findings indicate that the compensation system does not have a significant direct effect on employee performance, whereas transformational leadership has a positive and significant effect on performance. Employee engagement also has a positive and significant effect on employee performance and represents the most influential factor among the variables examined. Furthermore, both the compensation system and transformational leadership have positive and significant effects on employee engagement. These findings suggest that compensation alone is insufficient to directly improve employee performance; rather, its contribution to performance occurs through the development of employee engagement. In contrast, transformational leadership contributes to employee performance

both directly and indirectly through employee engagement.

The mediation analysis further demonstrates that employee engagement fully mediates the relationship between the compensation system and employee performance, while it partially mediates the relationship between transformational leadership and employee performance. Therefore, improving employee performance in the Marketing Division of PT Power Asetindo Selaras should prioritize strengthening employee engagement through supportive working conditions, effective communication, appreciation, and meaningful involvement in organizational activities. At the same time, the company should maintain a fair and competitive compensation system and continuously develop transformational leadership practices. Given the limited sample of 51 employees from a single division and organization, future studies are encouraged to involve broader populations, additional variables such as organizational culture, work motivation, work environment, and job satisfaction, and alternative mediating variables to provide a more comprehensive understanding of the determinants of employee performance.

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