

**DETERMINANT OF EMPLOYEE ENGAGEMENT BASED ON
TRANSFORMATIONAL LEADERSHIP, COMPENSATION, AND WORK
ENVIRONMENT AT LASMONO GROUP IN SURABAYA**

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Abstract

This study aims to analyze the influence of transformational leadership, compensation, and work environment on employee engagement at Lasmono Group in Surabaya. The research was prompted by a strategic paradox within the company: despite low employee turnover rates suggesting high satisfaction, the actual level of employee engagement remained unmeasured, posing a risk of "false satisfaction." This quantitative study employed an associative causal design. The population consisted of all 120 employees at the Lasmono Group headquarters, with data collected through a saturation sampling technique. Data were gathered via questionnaires and analyzed using multiple linear regression with SPSS 26. The findings reveal that transformational leadership and work environment have a significant positive partial effect on employee engagement. However, compensation was found to have no significant partial effect. Simultaneously, all three independent variables collectively exert a significant influence on employee engagement. The coefficient of determination (Adjusted R²) indicated that 31.8% of the variance in employee engagement could be explained by these three variables, while the remainder is influenced by other factors outside the scope of this research. This study concludes that relational and psychological factors are more potent drivers of engagement than financial incentives in this specific organizational context.

Keywords: Employee Engagement, Transformational Leadership, Compensation, Work Environment, Job Demands-Resources Model

INTRODUCTION

In the contemporary 21st-century global market, a fundamental paradigm shift has redefined the sources of organizational competitive advantage. Tangible assets, such as machinery, technology, and financial capital, which historically formed the primary pillars of corporate strength, are no longer the sole determinants of success. The dawn of the knowledge-based economy has firmly positioned intangible assets, particularly human capital, at the new epicenter of sustainable value creation and competitive superiority. Modern organizations no longer compete merely on production efficiency or product supremacy; instead, they vie for the collective capacity of their human resources to innovate, demonstrate agility in adaptation, and deliver service quality that surpasses customer expectations. Within this strategic landscape, the ability to optimize the psychological potential and contributions of employees has become an unavoidable strategic imperative.

Amidst this strategic constellation, the concept of employee engagement has emerged as one of the most vital psychological constructs in the contemporary human resource management discourse. Far transcending mere job satisfaction or high morale, employee engagement represents the profound level of psychological investment an individual commits to their role and organization. The concept was first scientifically articulated by Kahn, who defined personal engagement as "the harnessing of organization members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances". This definition underscores that engagement is not a passive state but an active process wherein employees consciously and voluntarily channel their entire selves physical energy, cognitive attention, and emotional passion—toward the success of their work. Evolving from this foundation, Schaufeli and colleagues further refined the concept into work engagement, defining it as "a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption". This framework is built upon three core dimensions: vigor, marked by high energy levels and mental resilience; dedication, referring to deep involvement driven by a sense of significance and pride; and absorption, a state of full concentration and engrossment in one's work.

Despite the widely acknowledged urgency of fostering employee engagement, empirical data at both global and national levels reveals a worrying engagement crisis. A 2024 Gallup report indicates that only 23% of employees worldwide are classified as highly engaged. This phenomenon is even more acute in Indonesia, where data shows the employee engagement rate is a mere 15% (Savitri et al., 2023). This significant gap is not just a statistical figure; it represents a massive loss of productivity potential, a hampering of innovation, and a weakening of the competitive strength of Indonesian companies. This context brings the focus to Lasmono Group, a dynamic multi-unit enterprise in Surabaya. The company presents a strategic paradox: internal data from the first quarter of 2025 shows a low employee turnover rate of under 5% monthly, which, combined with observations of a harmonious work atmosphere, paints a picture of high employee satisfaction. However, herein lies a critical strategic gap the paradox between apparent satisfaction and the unmeasured reality of true employee engagement. The organization operates under the assumption that satisfaction equates to engagement, creating the risk of "false satisfaction,"

where a stable workforce may lack the deep emotional and intellectual commitment required for optimal performance.

This study aims to investigate this paradox by exploring the determinants of employee engagement within Lasmono Group. Referring to the literature synthesis popularized by Schaufeli (in Erwina, 2020), employee engagement is conceptually defined as a multidimensional construct. Kahn (in Sukoco et al., 2021) first articulated employee engagement, later seen by Macey and Schneider (in Noviardy & Aliya, 2020) as a positive psychological state, defined by Harter et al. (in Fitria et al., 2020) as involvement, satisfaction, and enthusiasm for work, and measured here with the UWES by Schaufeli (in Ghallab, 2024). The theoretical foundation of this research is the Job Demands-Resources (JD-R) Model, which posits that job characteristics can be classified as either energy-depleting demands or motivation-boosting resources. Functioning as a middle-range theory from Cropanzo & Mitchell (in Ahmad et al., 2023), Social Exchange Theory (SET) explains the reciprocal mechanism wherein positive treatment from an organization is reciprocated by employees with positive attitudes and behaviors, such as engagement. Inconsistent findings from previous research highlight a contextual gap that this study seeks to address. For instance, a study by Safitri (2022) concluded that leadership, compensation, and work environment all had a significant positive influence on employee engagement.

These indicators are drawn from prior studies (Khalidiyah, 2022; Muliawan et al., 2024). According to Blanchard (in Nurhayuni et al., 2023), leadership is about fostering growth and trust to achieve outstanding results. Similarly, Yukl (in Aryani et al., 2023) emphasizes leadership as influence combined with empowerment, while Khalidiyah (2022) highlights four essential indicators.

Leadership itself can take various forms autocratic, democratic, laissez-faire, transformational, and transactional (Eck et al., 2024; Thanh & Quang, 2022; Akhmad et al., 2024). In relation to motivation, several studies provide different perspectives. Saputri and Wahjono (2023) note that supportive environments are crucial, while Lubis et al. (2023) stress the importance of fairness. Ayunasrah et al. (2022) take a more holistic view, and Sell and Cleal (in Prabowo, 2023) connect the psychosocial dimension of motivation with employee loyalty. More broadly, motivation is commonly categorized into physical and non-physical aspects (Puspita & Darwin, 2024; Rahma & Astuti, 2025).

Interestingly, some studies found contrasting results. Dzon (2021) and Suarsana et al. (2023), for instance, reported that leadership style showed no significant effect. Such inconsistencies indicate that the relationship between leadership style and motivation is not straightforward but rather complex and context-dependent, warranting further exploration in diverse organizational settings such as Lasmono Group.

Therefore, this research is designed to fill a multidimensional research gap. First, a contextual gap exists, as no empirical study has yet comprehensively and simultaneously investigated the influence of transformational leadership, compensation (operationalized as distributive and procedural justice), and work environment (operationalized as psychological safety) on employee engagement within the specific context of a multi-unit trade and industrial sector company in Surabaya. Second, a theoretical gap is addressed by testing an integrated model that synthesizes several theoretical frameworks (Transformational Leadership, Organizational Justice, SET, and the JD-R Model) to provide a coherent

explanation for the "Engagement Paradox". Consequently, this study moves beyond mere replication by offering a richer, more nuanced conceptual framework.

Stemming from the identified problems, this study pursues a set of interconnected objectives designed to comprehensively dissect the drivers of employee engagement at Lasmono Group. The primary goal is to analyze the simultaneous effect of transformational leadership, compensation, and the work environment to understand their collective impact on employee engagement. Following this holistic assessment, the research will delve deeper by examining the partial effect of each of these determinants individually. Specifically, it will scrutinize how transformational leadership, compensation policies, and the prevailing work environment independently influence the level of employee engagement within the company's Surabaya headquarters, thereby providing a multi-layered understanding of the phenomenon.

REVIEW OF LITERATURE

This research is anchored in a robust, multi-layered theoretical framework designed to provide a comprehensive understanding of the antecedents of employee engagement. The primary theoretical lens adopted is the Job Demands-Resources (JD-R) Model, which serves as the grand theory for this investigation. Developed by Bakker and Demerouti, the JD-R model posits that all job characteristics can be categorized into two distinct groups: Job Demands and Job Resources. Job Demands refer to the physical, psychological, social, or organizational aspects of a job that require sustained effort and are therefore associated with certain physiological and psychological costs. Conversely, Job Resources are those physical, psychological, social, or organizational aspects of the job that are functional in achieving work goals, reducing job demands, and stimulating personal growth, learning, and development. This study conceptualizes transformational leadership, fair compensation, and a supportive work environment as critical Job Resources that do not merely mitigate the negative impact of job demands but also actively trigger an intrinsic motivational process, which is hypothesized to culminate in higher levels of employee engagement. Bridging this framework to individual behavior is the Social Exchange Theory (SET), which functions as a middle-range theory. SET elucidates the fundamental psychological mechanism of reciprocity that governs workplace relationships. According to this theory, when an organization provides valuable Job Resources such as inspiring leadership, equitable rewards, and a safe environment employees perceive these as gestures of support and care. This perception creates a felt obligation to reciprocate with positive attitudes and discretionary behaviors that benefit the organization, the foremost of which is heightened employee engagement. Thus, the JD-R Model provides the "what" (the resources), while SET explains the "why" (the reciprocal exchange) of the proposed relationships.

The dependent variable at the core of this study, employee engagement, is a multifaceted psychological state that extends beyond simple job satisfaction. Its conceptual foundations were laid by Kahn (in Sukoco et al., 2021), who described it as the complete investment of an individual's self into their work role, encompassing physical, cognitive, and emotional dimensions. However, for empirical investigation, this study adopts the widely recognized three-dimensional model developed by Schaufeli (in Erwina, 2020) which defines work engagement through the constructs of vigor, dedication, and absorption. Zuhaena's

(2022) meta-analysis links engagement positively to satisfaction, commitment, and performance, and negatively to turnover intention and burnout.

Vigor refers to high levels of energy, mental resilience, a strong willingness to exert effort in one's work, and persistence even in the face of difficulties. It is the behavioral-energetic component of engagement. Dedication, the emotional component, is characterized by a profound sense of significance, enthusiasm, inspiration, pride, and challenge derived from one's work. Employees with high dedication perceive their work as meaningful and feel a strong connection to it. Finally, absorption, the cognitive component, describes a state of being fully concentrated and happily engrossed in one's work, whereby time passes quickly and one has difficulty detaching from the task at hand. The synergistic interplay of these three dimensions constitutes the positive, fulfilling, and proactive work-related mindset that this research aims to explain.

The first independent variable, transformational leadership, is posited as a powerful determinant of employee engagement. According to Northouse (in Wassalwa, 2022), this leadership style is distinct from others in its focus on inspiring and motivating followers to achieve extraordinary outcomes and, in the process, develop their own leadership capacity. As articulated by Bass and Riggio, transformational leaders motivate their followers to perform beyond expectations by transforming their awareness of the importance of work outcomes and directing them to prioritize collective interests over self-interest. According to Bass & Riggio (in Yanti & Mursidi, 2021), this is accomplished through four key behaviors, known as "The Four I's": Idealized Influence, where leaders act as admirable role models; Inspirational Motivation, where they articulate a compelling vision for the future; Intellectual Stimulation, where they challenge assumptions and encourage creativity; and Individualized Consideration, where they act as mentors or coaches to each follower. Within the JD-R framework, these four behaviors function as critical psychological Job Resources. By providing a meaningful vision, intellectual challenges, and personal support, these leaders actively trigger a positive social exchange, compelling employees to reciprocate with the heightened vigor, dedication, and absorption that characterize deep engagement. Therefore, it is hypothesized that the practice of transformational leadership within Lasmono Group will exert a significant positive influence on employee engagement.

The second variable, compensation, is analyzed beyond its mere monetary value through the lens of Organizational Justice Theory. This micro-theory focuses on employees' perceptions of fairness in the workplace, which is a powerful driver of attitudes and behaviors. According to Dessler's (Marin, 2021) clarification, It distinguishes between two crucial forms of justice: Distributive Justice, which pertains to the perceived fairness of the outcomes or rewards an employee receives (e.g., salary, bonuses), and Procedural Justice, which refers to the perceived fairness of the processes and procedures used to determine those outcomes. A compensation system that is perceived as fair in both its distribution and procedures is a fundamental Job Resource. Septiani et al. (2024) define compensation as a strategic tool for attracting, motivating, and retaining talented employees while aligning their interests with organizational goals. According to the principles of SET, such fair treatment signals that the organization values and respects its employees. This perception fosters trust and creates a sense of obligation for employees to reciprocate this fairness with positive contributions, such as investing more of their cognitive and emotional energy into their work. Consequently, this study posits that a higher perception of fairness in the compensation

system at Lasmono Group will be positively associated with higher levels of employee engagement.

The final independent variable, work environment, is conceptualized as a comprehensive psychosocial ecosystem, with the concept of Psychological Safety at its core. Defined by Edmondson as a shared belief held by members of a team that the team is safe for interpersonal risk-taking, psychological safety implies that individuals feel secure to speak up, offer ideas, ask questions, or admit mistakes without fear of being punished or humiliated (Ayunasrah et al., 2022). Sunarto and Ellesia (2023) describe the work environment more practically as everything surrounding employees that directly or indirectly shapes their work, emphasizing subjective perceptions and experiences. In the context of the JD-R model, psychological safety represents one of the most crucial Job Resources, as it is a fundamental precondition for engagement to occur (Zakiah & Dwiridotjahjono, 2021). In an unsafe environment, employees must allocate significant cognitive and emotional energy toward self-protection and impression management. Conversely, a psychologically safe environment liberates this energy, allowing employees to shift their focus from self-preservation to authentic self-expression and full involvement in their work. This climate of trust and respect facilitates a high-quality social exchange, encouraging employees to reciprocate the provided safety with genuine and proactive engagement. It is therefore hypothesized that a work environment characterized by high psychological safety at Lasmono Group will significantly and positively predict employee engagement.

RESEARCH METHOD

This study employs a quantitative approach with an associative causal research design to empirically investigate the hypothesized relationships between the independent and dependent variables. This design is deemed most appropriate as the research aims not only to identify the correlation between variables but also to determine the causal influence of transformational leadership, compensation, and work environment on employee engagement within a specific organizational context. Accordingly, this section presents the operational definitions of each variable, which Mustafa et al. (2022) describe as the technical procedure for measuring variables in the field.

The research was conducted at the headquarters of Lasmono Group in Surabaya, Indonesia. The population for this study comprises the entire workforce at this location, totaling 120 employees. A saturation sampling technique, also known as a census method, was utilized, whereby every member of the population was included in the sample (Sugiyono, 2023). This method was chosen due to the manageable size of the population, which effectively eliminates sampling error and maximizes the internal validity of the findings, ensuring that the results are fully generalizable to the target population of Lasmono Group's head office staff. Data for this research were gathered from both primary and secondary sources. Primary data were collected directly from the employees through a structured digital questionnaire administered via the Google Forms platform. To ensure a high response rate and clarity, the researcher was physically present during the data collection period to distribute the questionnaire link and provide assistance as needed. The questionnaire measured employee perceptions using a 5-point Likert scale, ranging from 'Strongly Disagree' (1) to 'Strongly Agree' (5). Secondary data were obtained from a review of existing

company documents, such as organizational structure charts and HR policies, as well as relevant academic literature, journals, and books.

The variables were operationalized with multi-item scales adapted from established theories: Transformational leadership centers on processes that encourage followers to transcend ego and self-interest, and in this study (X_1) was measured through indicators of charismatic influence, inspirational motivation, intellectual stimulation, and individualized consideration; Compensation (X_2) was assessed based on perceptions of distributive and procedural justice; Work Environment (X_3) was gauged through indicators of physical conditions and psychosocial factors, including psychological safety; and Employee Engagement (Y) was measured via its core dimensions of vigor, dedication, and absorption. All collected data were processed and analyzed using the Statistical Package for the Social Sciences (SPSS) version 26. The analysis began with instrument testing for validity (Pearson Product Moment) and reliability, following Ghozali's standard (in Handarini, 2023) that considers a Cronbach's Alpha ≥ 0.50 acceptable. This was followed by a series of classical assumption tests including tests for normality, multicollinearity, and heteroscedasticity to verify that the data met the prerequisites for regression analysis. The core analysis for hypothesis testing was conducted using multiple linear regression, which allowed for the examination of both the simultaneous and partial effects of the independent variables on the dependent variable.

Research Hypothesis

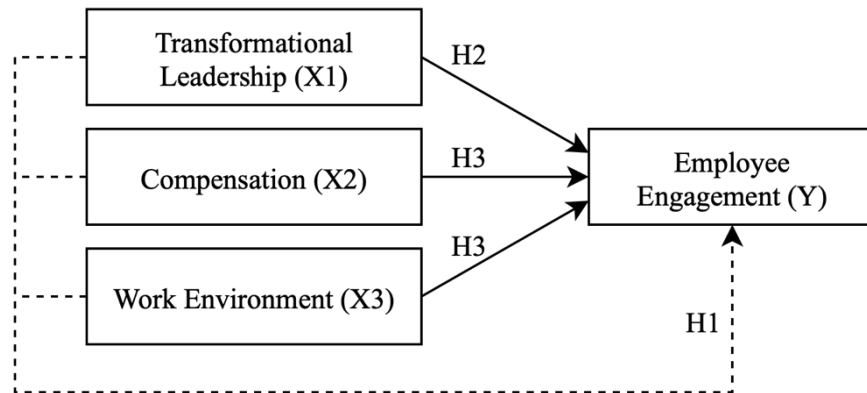
Based on the theoretical framework and a review of previous empirical findings, this study aims to test the following specific hypotheses regarding the determinants of employee engagement at Lasmono Group:

- H_1 : Transformational leadership, compensation, and work environment are hypothesized to have a significant simultaneous effect on employee engagement.
- H_2 : Transformational leadership is hypothesized to have a significant positive partial effect on employee engagement.
- H_3 : Compensation is hypothesized to have a significant positive partial effect on employee engagement.
- H_4 : Work environment is hypothesized to have a significant positive partial effect on employee engagement.

Research Model

The conceptual framework for this study models the hypothesized causal relationships between the identified independent variables and the dependent variable, as visualized in Figure 1 (Waruwu et al., 2025). This model posits that employee engagement (Y) is directly influenced by three key antecedents within the organizational context of Lasmono Group. These are Transformational Leadership (X_1), Compensation (X_2), and Work Environment (X_3). The model proposes both individual and collective predictive pathways. The arrows labeled H_2 , H_3 , and H_4 represent the hypothesized direct, partial influence of each respective independent variable on employee engagement. The overarching dotted line, labeled H_1 , represents the hypothesized simultaneous or combined effect, suggesting that the synergistic interplay of all three Job Resources is a significant predictor of the overall level of employee engagement. This integrated model provides a structured and testable representation of the theoretical arguments developed in the literature review.

Figure 1.
Research Model



Source: Author (2025)

RESULTS AND DISCUSSION

This section presents the empirical findings derived from the analysis of data collected from 120 employees at Lasmono Group. The presentation begins with a descriptive overview of the respondent demographics to provide context for the sample. This is followed by a report on the classical assumption tests, which validates the integrity of the multiple linear regression model. The core of this section is dedicated to the results of the hypothesis tests, systematically presenting the findings for both the simultaneous and partial effects of the independent variables. Each statistical result is immediately followed by a comprehensive discussion, critically interpreting the findings, linking them to the established theoretical frameworks, and comparing them with previous empirical research.

Demographic Profile of Respondents

The study successfully gathered data from the entire population of 120 employees at the Lasmono Group headquarters. The demographic profile of the respondents, summarized in Tables 1, 2, and 3, provides a foundational understanding of the sample. The data reveal a workforce that is predominantly male, comprising 86 respondents or 72% of the sample. The age distribution indicates a young and productive workforce, with the largest cohort (38%) falling within the 25-35 year age bracket, followed by those under 25 years old (31%). Furthermore, the analysis of employee tenure shows that a significant majority of the workforce (60%) has a relatively new term of service, between 1 to 3 years. This demographic composition suggests a dynamic organizational environment characterized by a young workforce in the early to middle stages of their careers.

Table 1.
Respondent Characteristics by Gender

Gender	Frequency	Percentage
Male	86	72%
Female	34	28%

Total	120	100%
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Source: Primary Data, Processed by Author (2025)

Table 2.
Respondent Characteristics by Age

Age Group	Frequency	Percentage
< 25 Years	37	31%
25-35 Years	45	38%
36-45 Years	31	26%
> 45 Years	7	6%
Total	120	100%

Source: Primary Data, Processed by Author (2025)

Table 3.
Respondent Characteristics by Tenure

Tenure	Frequency	Percentage
1-3 Years	72	60%
4-6 Years	24	20%
7-10 Years	17	14%
>10 Years	7	6%
Total	120	100%

Source: Primary Data, Processed by Author (2025)

Validity of the Analytical Model

Prior to hypothesis testing, a series of diagnostic tests were conducted to ensure that the data met the classical assumptions required for multiple linear regression analysis. The results confirm the robustness and validity of the model. The normality of residuals was confirmed through the Kolmogorov-Smirnov test, which yielded a significance value of 0.200, well above the 0.05 threshold, indicating a normal distribution. This was visually supported by a Normal P-P Plot where data points closely followed the diagonal line. The model was also found to be free from multicollinearity, as all Variance Inflation Factor (VIF) values were significantly below the conventional cutoff of 10 (Transformational Leadership = 1.413; Compensation = 1.136; Work Environment = 1.415), and all Tolerance values were above 0.10. Finally, a visual inspection of the scatterplot of standardized predicted values against standardized residuals revealed a random distribution of points with no discernible pattern, confirming the absence of heteroscedasticity. Having satisfied these assumptions, the following regression model was generated: $Y = 6.161 + 0.336X_1 + 0.095X_2 + 0.315X_3 + e$. This equation indicates that, holding all other factors constant, employee

engagement is expected to be 6.161, with positive relationships observed for transformational leadership (X_1), compensation (X_2), and work environment (X_3).

Hypothesis Testing and Discussion

The core findings of the study are derived from the F-test and t-tests, which directly address the research hypotheses. The first hypothesis (H_1), which posited a significant simultaneous effect of all three predictors, was strongly supported. The F-test (Table 4) yielded an F-statistic of 19.525 with a significance value of 0.000, confirming that the overall model is a potent predictor of employee engagement. The Adjusted R Square value of 0.318 further reveals that these three variables collectively explain 31.8% of the variance in employee engagement. This finding provides robust support for the Job Demands-Resources (JD-R) Model, empirically validating that the combination of these Job Resources creates a motivating ecosystem. It also aligns with Social Exchange Theory (SET), suggesting employees reciprocate this provision of resources with higher engagement. This result is consistent with the findings of Safitri (2022), who also identified a significant simultaneous influence.

Table 4.
ANOVA^a

	Type	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1178.215	3	392.738	19.525	.000 ^b
	Residuals	2333.251	116	20.114		
	Total	3511.467	119			

a. Dependent Variable: Employee Engagement

b. Predictors: (Constant), Work Environment, Compensation, Transformational Leadership

Source: Data processed (2025)

To understand the individual contribution of each predictor, t-tests were conducted for the partial effects (Tahitu et al., 2024) (Table 5). The test for transformational leadership (H_2) revealed a significant positive partial effect on employee engagement ($t = 3.537$, $p = .001$). This confirms that leadership behaviors such as providing an inspiring vision and individualized support are powerful drivers of engagement at Lasmono Group, a finding that supports the theories of Bass and Riggio. While consistent with studies by Safitri (2022) and Dunan & Arisma (2023), it contrasts with others (Dzon, 2021; Suarsana et al., 2023), suggesting the effect is highly contextual. In strong support of H_4 , the work environment also demonstrated a significant positive partial effect ($t = 3.332$, $p = .001$). This underscores the profound importance of the workplace's psychosocial climate, reinforcing its role as a foundational Job Resource that enables employees to shift from self-protection to self-expression. This finding showed remarkable consistency across nearly all previous studies reviewed, establishing it as a stable and robust predictor of engagement.

Table 5.
Coefficients^a
Unstandardised
Coefficients

	Model	Unstandardised Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.161	2.637		2.337	.021
	Transformational Leadership	.336	.095	.318	3.537	.001
	Compensation	.095	.080	.096	1.194	.235
	Work Environment	.315	.095	.300	3.332	.001

a. Dependent Variable: Employee Engagement

Source: Data processed (2025)

In what is arguably the most pivotal finding of this study, the hypothesis regarding compensation (H_3) was rejected, as it was found to have no significant partial effect on employee engagement ($t = 1.194$, $p = .235$). According to Arifiyani and Sukirno (in Hermawati & Syofian, 2022), compensation is defined as financial returns, tangible services, and employee benefits received as part of the employment relationship. Nasution (2025) emphasizes that the right combination of financial and non-financial incentives can yield optimal motivation and engagement, and to operationalize the compensation construct in this study, seven indicators were used, consisting of four types (Hartono et al., 2021; Rahman, 2022).

This result provides a direct empirical answer to the “paradox of engagement” raised in the introduction. While employees may be sufficiently satisfied with their pay to remain with the company, accounting for the low turnover, financial rewards alone do not translate into deeper psychological engagement. Although this outcome contradicts Safitri (2022), it aligns closely with the findings of Budiman and Nuvriasari (2023), indicating that in this demographic and organizational context, relational and psychological rewards serve as far more salient drivers of engagement than purely transactional financial ones.

CONCLUSION

This study concludes that while transformational leadership, compensation, and work environment collectively and significantly predict employee engagement at Lasmono Group, their individual impacts are notably distinct. The research empirically confirms that transformational leadership and a supportive work environment are powerful, independent drivers of employee engagement. The most critical finding, however, is that compensation does not function as a significant partial predictor. This resolves the “engagement paradox” identified within the company, indicating that while financial rewards may secure employee retention, they are not the primary catalyst for the deeper psychological commitment that defines true engagement.

The findings carry significant theoretical and practical implications. From a theoretical perspective, this study not only reinforces the Job Demands–Resources (JD-R) model but also introduces a critical refinement: compensation appears to operate more as a “hygiene factor,” mitigating dissatisfaction without necessarily fostering deeper engagement. On the practical side, the results signal the need for a strategic reorientation shifting emphasis away from purely transactional, financially driven incentives toward cultivating a more

transformational and relational organizational culture. In particular, management should focus on strengthening leadership competencies and fostering psychological safety, as these relational dimensions have been shown to drive employee engagement more effectively than compensation alone.

While insightful, this study's findings are based on a single organization and a quantitative design. The model explained 31.8% of the variance, suggesting other factors are at play. Therefore, future research should expand the predictive model by including other variables, such as work-life balance or person-organization fit. Employing a mixed-methods approach would also be highly valuable to qualitatively explore the underlying reasons for the compensation paradox from the employees' perspective. Finally, conducting comparative studies across different industries would serve to test and enhance the generalizability of these findings.

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