

THE EFFECT OF COMPENSATION AND WORK ENVIRONMENT ON EMPLOYEE PERFORMANCE WITH EMPLOYEE ENGAGEMENT AS A MEDIATING VARIABLE



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Abstract

This study aims to analyze the effect of compensation and work environment on employee performance with employee engagement as a mediating variable at PT. Profilindah Kharisma. The compensation variable is measured through the level of pay, benefits, raises, and pay structure; the work environment through job complexity, autonomy, workload, supervisor support, and coworker relationships; employee engagement through emotional involvement, responsibility, concern, and task completion; while employee performance is measured through task completion, work standards, efficiency, result orientation, and creativity. The study used a quantitative approach with the Partial Least Square–Structural Equation Modeling (PLS-SEM) method. Data were obtained from 151 employee respondents through questionnaires and analyzed using SmartPLS 3.0. The results showed that compensation and work environment had a positive and significant effect on employee performance. In addition, employee engagement also has a significant effect on performance and mediates the relationship between compensation and work environment with performance. The implication of this study is the need for management to integrate a fair compensation system, a conducive work environment, and engagement enhancement programs to support sustainable performance. Further research is recommended to add variables of leadership or organizational culture to provide more comprehensive results.

Keywords: Compensation, Work Environment, Employee Engagement, Employee Performance

INTRODUCTION

The background of this study stems from the global challenge of managing human resources, where employee engagement has become a crucial issue that determines the success of an organization. The Gallup Global Workplace Report (2024) notes that only 23% of employees worldwide are truly engaged, while the rest are disengaged, which has a negative impact on the productivity, loyalty, and profitability of the organization. In Indonesia, similar problems are seen in increasing turnover, low loyalty, and declining productivity, which are largely triggered by uncompetitive compensation and a work environment that does not support physical and psychological well-being (Saeed et al., 2023; Shelke & Shaikh, 2023).

Fair and competitive compensation, whether in the form of salary, benefits, or non-financial rewards, has been proven to increase employee motivation and performance (Mediaty, 2023; Rusmana, 2025). However, compensation alone is not enough without the support of a conducive work environment, including a positive work atmosphere, supportive leadership, and harmonious working relationships (Nurhadi & Sulistyowati, 2021; Panuwundani, 2025). In this context, employee engagement plays an important role as a mediator that bridges the relationship between compensation and work environment and performance. According to (Kahn, 1990) and (Schaufeli et al., 2002) engagement is formed when employees feel secure, valued, and have a common goal with the organization, thus motivating them to contribute more.

This research was conducted at PT Profilindah Kharisma, a manufacturing company with a complex structure involving organic and outsourced employees. This condition creates unique dynamics in terms of loyalty, motivation, and performance. Therefore, this study aims to integratively examine the influence of compensation and work environment on employee performance with employee engagement as a mediating variable. The results are expected to enrich the literature on human resource management and serve as a practical basis for formulating fairer, more adaptive, and sustainable workforce management strategies (Bhardwaj & Kalia, 2021; Wojtczuk-Turek & Turek, 2021). The research hypotheses to be tested in this study are:

1. Hypothesis 1 (H1): Compensation has a significant and positive effect on employee performance at PT. Profilindah Kharisma.
2. Hypothesis 2 (H2): The work environment has a significant and positive effect on employee performance at PT. Profilindah Kharisma.
3. Hypothesis 3 (H3): Compensation has a significant and positive effect on employee engagement at PT. Profilindah Kharisma.
4. Hypothesis 4 (H4): The work environment has a significant and positive effect on employee engagement at PT. Profilindah Kharisma.
5. Hypothesis 5 (H5): Employee engagement has a significant and positive effect on employee performance at PT. Profilindah Kharisma.
6. Hypothesis 6 (H6): Employee engagement mediates the relationship between compensation and employee performance at PT. Profilindah Kharisma.
7. Hypothesis 7 (H7): Employee engagement mediates the relationship between work environment and employee performance at PT. Profilindah Kharisma.

REVIEW OF LITERATURE

The Theory of Motivation and Employee Performance serve as the main foundation, combining several approaches in organizational psychology and management to explain the relationship between compensation, work environment, and employee performance. The two main theories used are Herzberg's Two-Factor Theory and Employee Engagement Theory. Herzberg's Two-Factor Theory divides the factors that influence job satisfaction into two categories: motivators and hygiene factors. Motivators, such as achievement, recognition, and opportunities for growth, are closely related to employee engagement, emotional commitment, and employee involvement in their work. On the other hand, hygiene factors, such as compensation and working conditions, affect basic satisfaction and can prevent dissatisfaction, but are not sufficient to encourage high engagement. Meanwhile, the Employee Engagement Theory views engagement as an emotional and cognitive state in which employees feel committed to the organization, have high energy, and are focused on their work. This engagement is an important variable in this study because it serves as a link connecting external factors such as compensation and work environment with better performance. Employee performance in this context is not only influenced by external incentives (compensation) or physical conditions (work environment), but also by the level of engagement influenced by these factors.

1) Compensation

Equity Theory, first developed by John Stacey Adams in 1963 (Adams, 2015), explains that employees assess fairness in compensation by comparing their inputs (such as time, effort, and skills contributed to the job) with the outputs they receive (e.g., salary, benefits, and recognition). When employees feel that the results they receive are not commensurate with their contributions, they will feel dissatisfied and less motivated. Inequity in compensation often leads to disengagement, which has a negative impact on productivity and performance. Conversely, Extrinsic Rewards Theory suggests that adequate compensation serves as a reward that motivates employees to become more engaged in their work. Fair compensation, commensurate with employee contributions, can motivate them to work harder and improve their performance.

2) Work Environment

Environmental Design Theory emphasizes the importance of physical factors in the work environment, such as lighting, ventilation, cleanliness, and workplace comfort, in influencing employee productivity and well-being. An unfavorable work environment can lead to a decline in employee morale and motivation, as well as increased stress and dissatisfaction. Conversely, a comfortable and supportive work environment can increase employee energy and engagement, leading to better performance. In addition, Social Support Theory highlights the importance of social support in the work environment. Employees who feel supported by their superiors and coworkers will feel more emotionally involved with their work. This social support acts as a reinforcing factor that increases employee engagement, which in turn improves their performance. A healthy work environment, both physically and emotionally, serves as the basis for higher employee engagement, which ultimately improves organizational performance.

3) Employee Engagement

Schaufeli and Bakker's theory of employee engagement is the main theory used to understand employee engagement in this study. According to them, engagement consists of

three main dimensions: vigor, dedication, and absorption. Employees who have high vigor feel energetic and enthusiastic about their work. Dedication indicates a strong commitment to work, and absorption describes a state in which employees feel so fully involved in their work that time passes quickly without them realizing it. These three dimensions influence how employees carry out their duties and play a role in performance. This theory states that engaged employees have a stronger relationship with the organization, are more motivated, and are more productive. In addition, the Organizational Commitment Theory proposed by Meyer and Allen shows that commitment to the organization is closely related to the level of engagement. Employees who have a strong emotional commitment to the organization are more likely to work diligently and put extra effort into their work, which in turn improves their performance.

4) Employee Performance

Performance Theory suggests that employee performance is influenced by various factors, including individual ability, motivation, and work environment. In the context of this study, employee performance is viewed as the result of interactions between external factors such as compensation and work environment, as well as internal factors in the form of employee engagement levels. Employees who feel emotionally involved in their work, driven by fair compensation and a supportive work environment, will be more productive and deliver better results. In addition, Edwin Locke's Goal Setting Theory argues that employees who have clear and specific goals tend to be more focused and strive harder to achieve them. Employees who are engaged in their work, have deep goals, and receive adequate support in the form of compensation and a supportive work environment will be more motivated to achieve those goals. This, in turn, will improve their overall performance

RESEARCH METHOD

The research method used in this study is a quantitative approach with explanatory research, which is research that aims to explain the causal relationship between the variables studied. The variables in this study include compensation (X1), work environment (X2), employee engagement (Z), and employee performance (Y). The research population was all employees of PT. Profilindah Kharisma, with a total of 151 respondents determined using saturated sampling (census sampling), so that all members of the population were included in the research sample. Primary data was obtained through the distribution of a five-point Likert scale questionnaire that measured respondents' perceptions of each variable indicator. Before use, the research instruments were tested for validity and reliability to ensure their suitability. Data analysis was performed using the Partial Least Squares (PLS-SEM) based Structural Equation Modeling (SEM) method using SmartPLS 3.0 software, which was chosen because it is capable of testing complex relationship models, including direct and indirect (mediation) effects between variables. The analysis stages included outer model testing (convergent validity, discriminant validity, and reliability), inner model testing (R-square, Q-square, and Goodness of Fit), and hypothesis testing using path coefficient, t-value, and p-value values.

RESULTS AND DISCUSSION

Table 1.
Result of Characteristics Respondent

Characteristics	Category	Frequency	Percentage
Job Section	Administration	28	18.55
	Marketing & Sales	2	1.21
	Finance & Accounting	7	4.84
	Logistics & Flow Control	30	19.76
	Production/Operations	69	45.56
	Human Resources & General Affairs	15	10.08
Age (Years)	< 25	26	17.22
	25–30	42	27.81
	31–35	38	25.17
	36–40	24	15.89
	> 40	21	13.91
Gender	Male	115	76.16
	Female	36	23.84
Years of Service	< 1 year	18	11.92
	1–3 years	41	27.15
	4–6 years	39	25.83
	7–10 years	28	18.54
	> 10 years	25	16.56

Source: processed by researcher, 2025

Based on the table above, the majority of respondents work in production/operations (45.56%), followed by logistics & flow control (19.76%) and administration (18.55%). This shows that most respondents come from work units directly related to the company's core processes and supply chain, while the marketing & sales department has the smallest number, at only 1.21%. In terms of age, respondents were dominated by those aged 25–30 years (27.81%) and 31–35 years (25.17%), indicating that the majority of respondents were in their early to mid-productive years. Meanwhile, respondents under the age of 25 accounted for

17.22% and those aged 40 and above () accounted for 13.91%, so the largest proportion remained in the young and middle age categories.

In terms of gender, most respondents were male (76.16%), while female respondents only accounted for 23.84%. This condition indicates that the jobs studied are dominated by male workers, possibly due to the characteristics of jobs in the production and logistics sectors, which require greater physical strength. In terms of length of service, respondents with 1-3 years of experience accounted for the largest proportion at 27.15%, followed by those with 4-6 years of service at 25.83%. In addition, 18.54% of respondents had 7–10 years of work experience, and 16.56% had more than 10 years of experience. Only 11.92% of respondents had been working for less than 1 year. These findings show that the majority of respondents had considerable work experience, enabling them to provide mature perspectives on working conditions at the company.

This study uses SEM-PLS to test a series of hypothetical relationships between the variables of compensation (X1), work environment (X2), employee engagement (Z), and employee performance (Y) of employees at PT. Profilindah Kharisma, Tbk. The SEM-PLS analysis steps refer to the procedures developed by Chin (1999) and Hair et al. (2020), which include: (1) evaluation of the measurement model (outer model); (2) evaluation of the structural model (inner model); (3) goodness of fit; and (4) hypothesis testing

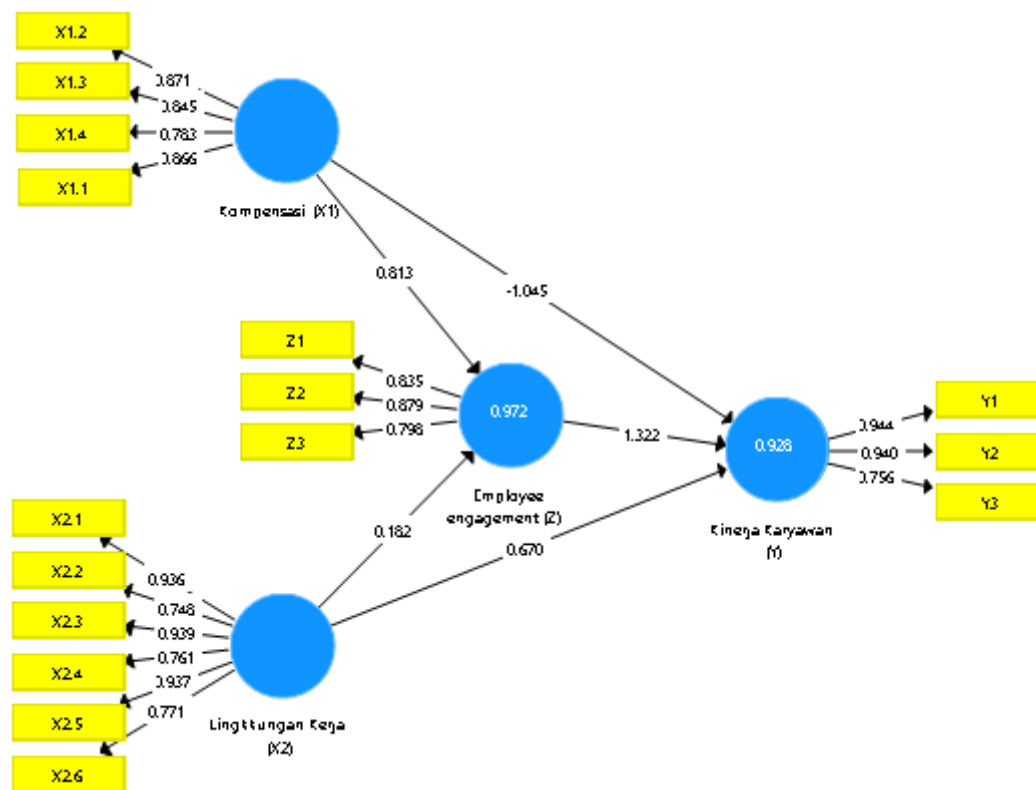


Figure 1.
Data analysis results

Evaluation of the Measurement Model (outer model)

Table 2.
Outer Model Estimation

Variabel	Item	Loading	Cronbach's	Composite	AVE
	Faktor		Alpha	Reliability (CR)	
Kompensasi (X1)	X1.1	0,866	0,864	0,907	0,709
	X1.2	0,871			
	X1.3	0,845			
	X1.4	0,783			
Lingkungan Kerja (X2)	X2.1	0,936	0,923	0,941	0,728
	X2.2	0,748			
	X2.3	0,939			
	X2.4	0,761			
	X2.5	0,937			
	X2.6	0,771			
Kinerja Karyawan (Y)	Y1	0,944	0,857	0,914	0,782
	Y2	0,940			
	Y3	0,756			
Employee Engagement (Z)	Z1	0,835	0,788	0,876	0,702
	Z2	0,879			
	Z3	0,798			

Source: processed by researcher, 2025

The outer loadings test results show that most indicators in all research variables have loadings above 0.70, so they can be declared convergent valid. In the Compensation variable (X1), the item with the highest loading is X1.2 (0.897), which means that respondents' perceptions of the net wages received are the strongest indicator in explaining compensation, while the item with the lowest loading is X1.1 (0.716). Cronbach's Alpha value of 0.817, CR 0.879, and AVE 0.647 indicate that the compensation construct is reliable and valid.

In the Work Environment variable (X2), the indicator with the highest loading is X2.2 (0.931), which shows that workload and job demands are the most dominant aspects, while the lowest indicator is X2.3 (0.708). Cronbach's Alpha of 0.906, CR of 0.931, and AVE of 0.732 indicate excellent reliability and validity of the construct. For the Employee Engagement (Z) variable, the highest factor loading value is on item Z3 (0.784), while the lowest is on Z2 (0.712). The Cronbach's Alpha value of 0.730, CR of 0.832, and AVE of 0.553 are still above the minimum limits ($\alpha > 0.7$, $CR > 0.7$, and $AVE > 0.5$), so it can be

concluded that this instrument is quite reliable and valid even though its consistency is not as strong as other variables.

Meanwhile, in the Employee Performance (Y) variable, the indicator with the highest loading is Y3 (0.892), which emphasizes the importance of work outcome orientation in explaining employee performance, while the lowest loading is Y5 (0.765). Cronbach's Alpha values of 0.920, CR of 0.938, and AVE of 0.717 indicate excellent reliability and validity, so that the employee performance construct can be trusted for measurement. Overall, all research variables meet the criteria for construct reliability and validity. This proves that the instruments used in this study can be trusted to measure the relationship between compensation, work environment, employee engagement, and employee performance.

Discriminant Validity

Discriminant validity is a cross-loading factor value that is useful for determining whether a construct variable has adequate discriminants by comparing the loading value of the target construct variable, which must be greater than the loading value of other constructs (Ghozali & Latan, 2015; Hussein, 2015). The discriminant validity test refers to the Fornell-Larcker criteria, which indicate a *cross-loading* value > 0.70 , meaning that the variables meet discriminant validity (Fornell, 1988; Chin, 2009; Hair et al., 2013).

Table 3.

Discriminant Validity (Fornell-Larcker Criterion)

	Employee Engagement (Z)	Employee Performance (Y)	Compensation (X1)	Work Environment (X2)
Employee Engagement (Z)	0,838			
Employee Performance (Y)	0,929	0,884		
Compensation (X1)	0,984	0,888	0,842	
Work Environment (X2)	0,949	0,938	0,944	0,853

Source: processed by researcher, 2025

The results of the Fornell-Larcker Criterion analysis in the table above, it can be explained that the square root value of the Average Variance Extracted (AVE) for each construct is higher than the correlation between other constructs. This shows that each construct in the model has a good discriminant validity, or in other words, each latent variable is able to distinguish itself from the other variables in the research model. In detail, the Employee Engagement (Z) construct has an AVE root value of 0.838, which is higher than the correlation with other constructs, namely Employee Performance (0.929), Compensation (0.984), and Work Environment (0.949). Similarly, the Employee Performance (Y) construct has an AVE root value of 0.884, which is higher than the correlation with other constructs. The Compensatory construct (X1) has an AVE root value of 0.842, which is also higher than the correlation between other constructs. Meanwhile, the Work Environment construct (X2) shows an AVE root value of 0.853, which is still greater than the correlation with other constructs. Thus, these results show that the entire construct has adequate discriminant validity. This means that each variable, namely Compensation (X1), Work Environment (X2), Employee Engagement (Z), and Employee Performance (Y) can explain significantly

different concepts. These findings support the validity of the measurement model in the study, so that it can be concluded that the indicators used have been able to measure their respective constructs appropriately and that there is no overlap between latent variables.

Structural Model (Inner Model)

1. Coefficient of Determination (R^2)

According to Ghozali and Latan (2015), the magnitude of R^2 indicates the magnitude of the influence of exogenous variables on endogenous variables. If the value of R^2 is 0.75, 0.50, and 0.25, it can be concluded that the model is strong, moderate, and weak, respectively.

Table 4.
R-Square

	R Square
Employee Engagement (Z)	0,972
Employee Performance (Y)	0,928

Source: processed by researcher, 2025

R-Square, obtained a value of 0.972 for the Employee Engagement (Z) variable and 0.928 for the Employee Performance (Y) variable. This R-Square value indicates the level of ability of independent variables to explain dependent variables.

The R-Square value of 0.972 on the Employee Engagement (Z) variable indicates that 97.2% of the variation in employee engagement can be explained by compensation (X1) and work environment (X2), while the remaining 2.8% is explained by other factors outside of this study model. This value is classified as very high, indicating that the model has a strong ability to explain the mediating variables.

Furthermore, the R-Square value of 0.928 on the Employee Performance variable (Y) indicates that 92.8% of the variation in employee performance can be explained by compensation (X1), work environment (X2), and Employee Engagement (Z), while the remaining 7.2% is influenced by other external factors. This value is also very good, indicating that the research model has high reliability and strong empirical relevance.

Thus, these results confirm that the combination of compensation and work environment, both directly and through Employee Engagement, makes a significant contribution to improving employee performance.

2. Size Effect (f^2)

Table 5. Size Effect (f^2)

	Employee Engagement (Z)	Employee Performance (Y)	Compensation (X1)	Work Environment (X2)
Employee Engagement (Z)		0,675		
Employee Performance (Y)				
Compensation (X1)	2,602	0,461		
Work Environment (X2)	0,130	0,605		

Source: processed by researcher, 2025

Based on the table of effect size (f^2) values above, it can be explained that the influence of each variable on other variables in the research model has a different level of strength. The f^2 value of 2.602 between compensation (X1) and employee engagement (Z)

shows a very large influence, meaning that compensation is the dominant factor in increasing employee engagement. This indicates that the better the compensation system implemented, the higher the level of enthusiasm, dedication, and involvement of employees in their work. Furthermore, the f^2 value of 0.461 between compensation (X1) and employee performance (Y) showed a large influence, meaning that compensation also made a significant contribution to performance improvement, although the effect was slightly lower than that of engagement.

Meanwhile, an f^2 value of 0.130 between the work environment (X2) and employee engagement (Z) showed a small influence, indicating that the work environment did not play much of a role in building employee emotional attachment. This can be caused by other factors such as leadership, organizational culture, or job satisfaction that affect engagement. In contrast, the f^2 value of 0.605 between the work environment (X2) and employee performance (Y) shows a large influence, which means a good work environment is able to directly increase productivity and performance effectiveness. Overall, these results illustrate that compensation plays a major role in engagement and performance, while the work environment is more dominant in terms of performance than engagement. These findings reinforce the importance of fair compensation policies and a supportive work environment as a strategic combination in improving employee performance.

Hypothesis Testing

1. Testing Direct and Indirect Effects

Direct effect testing was used to test hypotheses 1 to 7 in this study. This test used *path coefficient* values, with t-statistics values greater than the t-table (1.96) and p-values < 0.05 leading to the conclusion that the hypothesis could be accepted, meaning that the direct effect was positive and significant between the variables tested.

Table 5.
Direct Effect

	Relationship	β	T-value	P-values	Decision
H1	Compensation (X1) -> Employee performance (Y)	-1,045	3,943	0,000	Confirmed
H2	Work environment (X2) -> Employee performance (Y)	0,670	7,034	0,000	Confirmed
H3	Compensation (X1) -> Employee engagement (Z)	0,813	23,617	0,000	Confirmed
H4	Work environment (X2) -> Employee engagement (Z)	0,182	5,054	0,000	Confirmed
H5	Employee engagement (Z) -> Employee performance (Y)	1,322	4,061	0,000	Confirmed
H6	Compensation (X1) -> Employee engagement (Z) -> Employee performance (Y)	1,074	3,909	0,000	Confirmed
H7	Work environment (X2) -> Employee engagement (Z) -> Employee performance (Y)	0,240	3,277	0,001	Confirmed

Source: processed by researcher, 2025

The results of the analysis showed that all hypotheses (H1–H7) were confirmed because the T-value was > 1.96 and the P-value < 0.05. Compensation (X1) had a significant

negative effect on employee performance (Y) ($\beta = -1.045$; $t = 3.943$; $p = 0.000$), while the work environment (X2) had a significant positive effect ($\beta = 0.670$; $t = 7.034$; $p = 0.000$). Compensation (X1) and work environment (X2) also had a significant effect on employee engagement (Z) ($\beta = 0.813$; $p = 0.000$ and $\beta = 0.182$; $p = 0.000$). In addition, employee engagement (Z) had a positive effect on employee performance (Y) ($\beta = 1.322$; $p = 0.000$) and mediated the relationship between compensation and the work environment on employee performance ($\beta = 1.074$; $p = 0.000$ and $\beta = 0.240$; $p = 0.001$). This shows that employee engagement is an important factor in improving performance.

Compensation has a significant and positive effect on employee performance

Compensation has been proven to be an important factor that affects employee performance because it serves as a form of reward for their contributions. Compensation is one of the main elements in human resource management that influences work behavior. According to Vroom's Expectancy Theory, employee motivation to work hard is influenced by the expectation that their efforts will result in good performance and ultimately receive appropriate rewards. If the compensation received by employees is in line with expectations, then the motivation to improve performance will also be higher. (Widodo, 2020) research confirms that targeted compensation (monetary and non-monetary) encourages productivity, reduces turnover, and increases loyalty. Thus, the compensation provided by PT. Profilindah Kharisma is not only a financial instrument but also a psychological factor that encourages optimal performance.

The work environment significantly and positively influences employee performance

A conducive work environment has a real impact on performance because it creates a comfortable atmosphere that supports productivity. A healthy work environment includes physical aspects (work space comfort, lighting, ventilation, safety) and non-physical aspects (relationships between colleagues, communication, managerial support). Work Ergonomics Theory explains that an environment designed according to employee needs can minimize fatigue, stress, and work errors. Research by (Sutanto & Ratnawati, 2021) shows that a supportive work environment creates satisfaction and has a direct impact on performance improvement. This can be seen at PT. Profilindah Kharisma, where a comfortable work environment plays an important role in increasing productivity, even though the workload is quite high.

Compensation has a significant and positive effect on employee engagement.

Compensation not only has an impact on financial aspects, but also strengthens employees' emotional attachment to their work. Compensation not only increases satisfaction, but also builds employee trust and commitment to the organization. Based on Psychological Contract theory, compensation is seen as a form of fulfillment of the organization's promises to employees. If this psychological contract is fulfilled, employees tend to have higher engagement. A study by (Lee et al., 2021) found that performance-based compensation strengthens engagement because employees feel that their contributions are fairly valued. Therefore, in the context of PT. Profilindah Kharisma, compensation serves as both a motivational tool and an emotional bond that fosters engagement.

The work environment has a significant and positive effect on employee engagement.

The work environment has been proven to increase engagement because it creates a work climate that supports employee responsibility, care, and emotional bonds. A good work environment can foster a sense of togetherness and connection among employees. According

to Social Identity Theory, individuals are more engaged when they feel part of a supportive work group. Research by (Othman & Nasurdin, 2019) shows that a supportive work environment increases employee confidence and strengthens their involvement in their tasks. This is particularly relevant to PT. Profilindah Kharisma, where peer support, leadership care, and open communication are important factors that increase engagement.

Employee engagement has a significant and positive effect on employee performance.

Employee engagement plays a direct role in driving high performance because emotional attachment, a sense of responsibility, and concern for coworkers motivate employees to work better. Engaged employees exhibit characteristics of high energy, dedication, and full absorption in their work (vigor, dedication, absorption). Based on the Job Demands-Resources Model, engagement is a source of psychological energy that influences work output. Research by (Shuck & Reio, 2019) proves that engagement is a strong predictor of innovation, commitment, and performance. The results of research at PT. Profilindah Kharisma reinforce this finding: employees' emotional involvement in their work makes them more motivated to work efficiently and achieve set targets.

Employee engagement mediates the relationship between compensation and employee performance.

Compensation not only has a direct effect on performance, but also strengthens engagement, which in turn improves performance. The mediating role of engagement in the relationship between compensation and performance indicates that compensation is only effective in driving performance when accompanied by employees' emotional attachment. This is in line with Self-Determination Theory (SDT), which explains that extrinsic motivation (such as compensation) will be more meaningful if it supports employees' intrinsic motivation (sense of ownership, attachment). Research by (Alfes et al., 2013) supports the notion that good compensation increases engagement, and engagement in turn improves performance. At PT. Profilindah Kharisma, this indicates that compensation strategies need to be integrated with efforts to build engagement in order to maximize the impact on performance.

Employee engagement mediates the relationship between the work environment and employee performance.

A good work environment will increase engagement, which in turn affects employee performance. Engagement is also an important mediator in the relationship between work environment and performance. The Conservation of Resources (COR) theory explains that a positive work environment serves as a resource that protects employees from stress, allowing them to maintain their energy and engagement in their work. A study by (Bakker et al., 2023; Bakker & Albrecht, 2018; Schaufeli et al., 2002) shows that a supportive work environment has a significant effect on engagement, which in turn drives performance. These findings are consistent with the conditions at PT. Profilindah Kharisma, where a healthy work environment not only has a direct impact on performance but also increases engagement, which ultimately strengthens individual and team performance

CONCLUSION

Based on the results of the study, it can be concluded that compensation, work environment, and employee engagement play an important role in improving employee performance. Compensation and work environment have been proven to have a significant

effect on performance, although in some cases the direct effect tends to be negative. However, both can have a stronger positive effect when mediated by employee engagement. This means that employee engagement is a central factor that bridges the relationship between organizational factors and performance results. Fair compensation and a conducive work environment can increase engagement and ultimately result in optimal performance. Thus, this study confirms that companies need to place employee engagement as a key strategy in human resource management, so that compensation and work environment are not only viewed as administrative instruments, but also as a means of building emotional attachment among employees to encourage sustainable performance.

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