International Journal of Indonesian Business Review

Vol.5 No.2 (2026)
e-ISSN: 2827-9840
pp.169-184

The Role of Employee Engagement in Mediating Transformational Leadership and Compensation on Employee Performance

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DOI: https://doi.org/10.54099/ijibr.v5i2.1905

Research Paper

Article history:
Received: 10 June 2026
Revised: 17 July 2026
Accepted: 5 August 2026

Keywords:
Transformational Leadership, Compensation, Employee Performance, Employee Engagement

ABSTRACT

Purpose – This study aims to examine the effect of transformational leadership and compensation on employee performance through employee engagement as a mediating variable at PT Infomedia Nusantara, a business-process-outsourcing (BPO) company that experienced a three-year decline in employee performance despite rising employee engagement.

Methodology/approach – This study employed a quantitative survey approach. Questionnaires were distributed to all 350 organic employees of PT Infomedia Nusantara using purposive and accidental sampling with a five-point Likert scale; 199 valid responses were obtained, exceeding the minimum sample of 187 required by Slovin's formula. Data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 4.0 software.

Findings – Transformational leadership has a positive and significant effect on employee performance, whereas compensation has no significant direct effect. Employee engagement has a positive and significant effect on performance and is the strongest predictor. Employee engagement does not mediate the relationship between transformational leadership and performance, but it fully mediates the relationship between compensation and performance.

Novelty – This study contributes to the human resource management literature by empirically documenting an engagement–performance paradox in the BPO industry: although engagement rose, performance declined. It demonstrates that compensation improves performance only when translated into employee engagement, while leadership drives performance directly, offering new insight for designing human-capital strategies in service organizations.

INTRODUCTION

Human resources remain the primary driver of service quality and operational effectiveness in the contact-center and digital-content industry. Employee performance—the qualitative and quantitative work result achieved in carrying out assigned responsibilities (Mangkunegara, 2016)—is therefore a critical determinant of organizational success. Maintaining high performance has become increasingly challenging amid workload pressure, target-based work systems, and continuous digital adaptation (Putrawan & Wulansari, 2026), a challenge intensified by the growth trajectory of the business-process-outsourcing (BPO) industry itself.

Indonesia's BPO and IT-enabled-services sector is projected to reach approximately USD 2.8 billion in 2026, growing at roughly 12% annually and employing more than 780,000 workers nationwide (StealthAgents, 2026); this rapid growth has intensified competition for skilled talent and placed sustained pressure on service providers to convert workforce capacity into consistent performance outcomes.

This phenomenon is evident at PT Infomedia Nusantara, a subsidiary of the Telkom Group that has operated for 41 years in BPO, customer-relationship management, and shared-service operations. Internal Human Capital records show that the proportion of employees rated "excellent" or "very good" fell from 4.2% in 2023 to 0.0% by 2025, the proportion rated "good" fell from 86.3% to 70.5%, and the proportion rated "below standard" rose from 8.4% to 27.0% over the same three-year period (2023–2025). The decline is paradoxical: the company's annual employee-engagement survey rose sharply from 67.8% in 2023 to 86.08% in 2024, yet measured performance continued to fall. In parallel, the financial-wellbeing dimension recorded the lowest score among all engagement dimensions (72.57, below the minimum standard of 80). Interviews with 35 permanent employees revealed two recurring concerns: leaders provide limited individual attention and unclear career direction, and target-based incentives are perceived as not commensurate with workload.

This local paradox mirrors a broader pattern now visible at the global level. Gallup's State of the Global Workplace 2025 report finds that worldwide employee engagement fell for a second consecutive year—from 23% in 2022 to roughly 20–21% in 2025—costing the global economy an estimated USD 438 billion to USD 10 trillion in lost productivity, even as many economies and firms continued to grow (Gallup, 2025). Industry commentary has begun describing this disconnect between engagement scores and performance outcomes as an "engagement paradox," arguing that traditional engagement metrics may no longer fully capture the complexity of contemporary, technology-disrupted workplaces (Simpplr, 2025). The Infomedia case therefore offers a timely, organization-level window into a phenomenon that is only beginning to be documented internationally.

Prior studies establish that both leadership and compensation influence performance. Rivaldo and Ratnasari (2020), Rosada (2021), Nalim et al. (2020), and a recent systematic review of 54 international studies by Agazu et al. (2025) confirm that transformational leadership significantly and consistently improves employee and firm performance, while Arif et al. (2019), Wandi et al. (2022), and Aripin and Rahmawati (2026) find mixed evidence for compensation: some studies report a positive direct effect, while others find that compensation affects performance only indirectly, through a psychological mediator such as job satisfaction or engagement. Regarding the mediating mechanism, Faradiva (2024) reports that employee engagement fully mediates the effect of transformational leadership and compensation on performance, a pattern also observed in call-center and telecommunications settings by Gabel-Shemueli et al. (2021) and Mansoor et al. (2022). Yet the Infomedia case—rising engagement alongside falling performance—contradicts this expectation and points to a more nuanced mechanism.

Although extensive research has examined the direct relationships among these variables, limited attention has been given to the mediating role of employee engagement within the Indonesian BPO industry specifically, representing a theoretical gap: most existing mediation evidence comes from manufacturing, hospitality, or banking contexts (e.g., Buil et al., 2019; Zhang & Yim, 2025), leaving open the question of whether the same full-mediation pattern holds in a high-volume, target-driven outsourcing environment. From a practical perspective, the declining performance trend at PT Infomedia Nusantara—despite rising engagement—suggests that the company's operational and engagement initiatives have not been matched by an equally precise understanding of which human-capital lever actually converts into performance. This constitutes both a theoretical problem, in that the boundary conditions under which employee engagement mediates leadership and compensation effects remain unclear, and a practical problem, in that management currently lacks empirical evidence on which lever—leadership or compensation—most efficiently drives performance through engagement.

Accordingly, this study aims to (1) examine the effect of transformational leadership on employee performance; (2) examine the effect of compensation on employee performance; (3) examine the effect of employee engagement on employee performance; (4) examine the mediating role of employee engagement between transformational leadership and employee performance; and (5) examine the mediating role of employee engagement between compensation and employee performance, all within the context of PT Infomedia Nusantara. The novelty of this study lies in its empirical documentation of an engagement–performance paradox at the organizational level within the Indonesian BPO sector, and in showing that employee engagement does not mediate uniformly across antecedents: it fully channels the effect of compensation into performance while leadership retains a strong direct effect independent of engagement. This differential-mediation finding contributes new empirical evidence to the human-capital literature and offers practical guidance for designing more targeted engagement and reward strategies in service organizations.

LITERATURE REVIEW

Employee Performance

Employee performance refers to the qualitative and quantitative work result achieved by an employee in carrying out assigned responsibilities in accordance with the duties given to them (Mangkunegara, 2016). Robbins and Judge (in Colquitt et al., 2019) explain that performance reflects both the quality and quantity of work achieved according to established standards, while Kahpi et al. (2017) add that performance indicators carry the heaviest weight in producing quality work output because each output must correspond to the function assigned to a given position or work unit within a specific period. Performance is commonly measured through five dimensions—quality, quantity, timeliness, cooperation, and responsibility—and encompasses both routine task execution and adaptive behavior in response to new or unpredictable demands (Hasibuan, 2017). Beyond its evaluative function, performance measurement also serves three broader purposes: improving employee productivity in both quantity and quality, generating knowledge that helps employees solve problems, and maintaining harmonious working relationships (Irwanto & Melinda, 2015). In service-based BPO organizations, employee performance is a key determinant of service quality, customer satisfaction, and organizational competitiveness, and, when measured objectively and evaluated periodically, becomes an input for management decisions on compensation, promotion, and job rotation.

Transformational Leadership

Transformational leadership is the ability of leaders to influence followers to prioritize collective goals and raise their aspirations toward higher performance (Yukl, 2016). The classic framework operationalizes the construct through four dimensions—idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration—still widely used in recent systematic reviews (Agazu et al., 2025), with personal recognition frequently added as a fifth dimension in the Indonesian literature (Bashori, 2019). A leader who embodies these dimensions acts as a role model, articulates an inspiring vision, stimulates followers intellectually, and pays individualized attention to each subordinate's developmental needs (Robbins & Judge, 2022). Empirically, transformational leadership is positively and consistently associated with performance across sectors and cultures: a 2025 systematic review of 54 international studies published between 2016 and

2023 concludes that the large majority of reviewed studies find a positive relationship between transformational leadership and firm performance (Agazu et al., 2025), while sector-specific studies confirm the same pattern in manufacturing (Islam et al., 2023), hospitality (Buil et al., 2019), and call-center operations (Gabel-Shemueli et al., 2021; Maharani et al., 2024). Beyond its direct effect, transformational leadership also strengthens followers' affective states and work engagement (Bader et al., 2023), suggesting that leaders who provide clear direction, inspiration, and personal guidance encourage employees to perform beyond expectations both directly and through heightened psychological engagement.

Compensation

Compensation is the total reward employees receive in return for their contributions (Dessler, 2020). Hasibuan (2017) classifies compensation into direct components (base pay, incentives, bonuses, overtime) and indirect, non-financial components (health insurance, pension, paid leave, and welfare programs). Adequate and equitable compensation is widely reported to motivate employees and enhance performance (Arif et al., 2019; Wandi et al., 2022; Pasaribu, 2020), yet more recent evidence suggests this relationship is more conditional than earlier studies implied. A 2026 study using variance-based structural equation modeling on employees of a state-owned Indonesian service firm found that compensation has only a positive but statistically non-significant direct effect on performance, with the relationship fully mediated by job satisfaction (Aripin & Rahmawati, 2026)—a pattern that closely parallels the compensation–performance path examined in the present study. Similarly, reward and recognition have been shown to be strong predictors of employee engagement rather than of performance itself (Sadilla & Wahyuningtyas, 2023), implying that compensation may operate primarily as an antecedent of psychological engagement rather than as a direct driver of output. At PT Infomedia Nusantara, compensation includes direct elements such as base salary, operational allowances, incentives, and a car-ownership program, and indirect elements such as health insurance and pension programs.

Employee Engagement

Employee engagement is an emotional, psychological, and behavioral connection to the organization, expressed through vigor, dedication, and absorption (Hamdani & Wulansari, 2026), a tripartite structure widely used in contemporary engagement research (Mazzetti et al., 2023). Engaged employees invest greater energy and persistence in their work and feel a sense of ownership toward organizational success (Handoyo & Setiawan, 2017). Meta-analytic evidence confirms that engagement is among the more robust predictors of individual performance: a meta-analysis spanning multiple decades of research finds that work engagement is positively related to both task and contextual performance and negatively related to absenteeism (Neuber et al., 2021), while Saks and Gruman (2021) similarly conclude that engagement contributes to performance both directly and by buffering the negative effects of job demands. Engagement is also frequently positioned as a mediator that channels the effects of leadership and compensation into performance: in a Chinese service-industry sample, employee engagement substantially explained the link between leadership-related antecedents and service performance (Zhang & Yim, 2025), and in a telecommunications customer-service context, engagement complementarily mediated the effect of transformational leadership on employee performance (Mansoor et al., 2022). At the same time, global engagement trends reported by Gallup (2025) show that engagement levels can rise or fall independently of broader productivity outcomes, reinforcing the need to examine engagement's mediating—rather than purely direct—role in specific organizational contexts such as PT Infomedia Nusantara.

Research Framework

Based on the theoretical review and prior empirical findings, this study proposes a research framework in which transformational leadership (X1) and compensation (X2) influence employee performance (Y) both directly and indirectly through employee engagement (Z) as a mediating variable. The framework is presented in Figure 1.

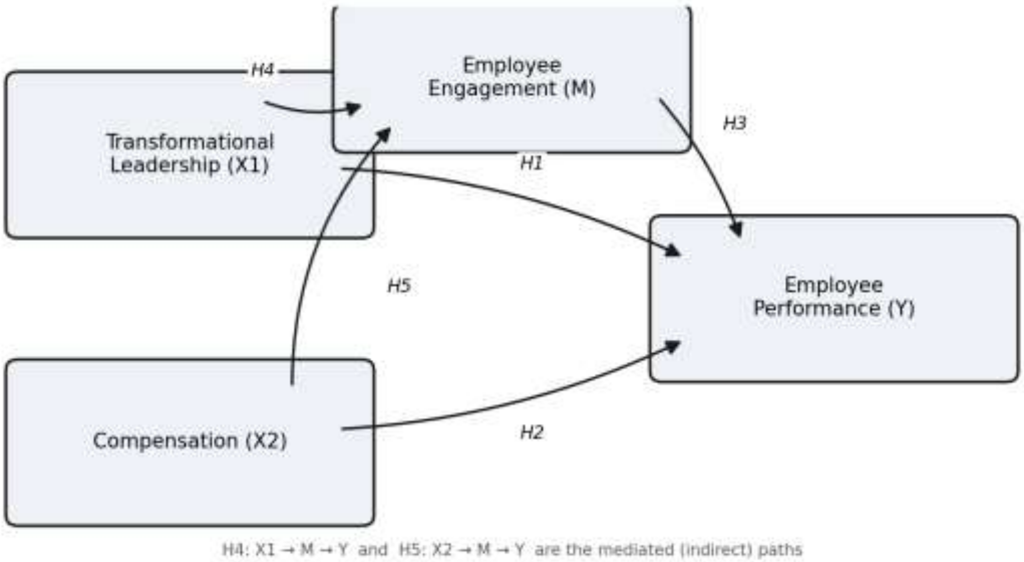

Figure 1. Research Framework

Hypotheses Development

The Effect of Transformational Leadership on Employee Performance (H1). Leaders who articulate a clear vision, model ethical conduct, stimulate followers intellectually, and provide individualized guidance raise employees' motivation, confidence, and work quality (Robbins & Judge, 2022). Prior studies confirm a positive and significant leadership–performance link across diverse settings, including Indonesian public and private organizations (Rivaldo & Ratnasari, 2020; Rosada, 2021), manufacturing firms (Islam et al., 2023), and a cross-country systematic review covering 54 studies from 2016 to 2023 (Agazu et al., 2025). Because transformational leaders act as role models who translate organizational goals into individually meaningful direction, their influence on performance is expected to be direct and substantial. H1: Transformational leadership has a positive effect on employee performance.

The Effect of Compensation on Employee Performance (H2). Fair and adequate financial and non-financial rewards are theoretically expected to motivate employees and improve their performance by satisfying basic security and esteem needs (Wandi et al., 2022; Pasaribu, 2020). Recent evidence, however, increasingly suggests that this effect may not always be direct: compensation appears to influence performance mainly by first shaping employees' psychological state—such as job satisfaction or engagement—rather than by acting on performance on its own (Aripin & Rahmawati, 2026; Sadilla & Wahyuningtyas, 2023). This study nonetheless tests the conventional direct-effect hypothesis to establish an empirical baseline for the Infomedia context. H2: Compensation has a positive effect on employee performance.

The Effect of Employee Engagement on Employee Performance (H3). Engaged employees demonstrate higher vigor, dedication, and absorption—psychological states that translate into greater discretionary effort, persistence, and productivity (Neuber et al., 2021; Saks & Gruman, 2021). In service-intensive settings such as BPO and call centers, where performance depends heavily on sustained interpersonal effort rather than one-off output, engagement has been shown to be an especially strong predictor of service and task performance (Zhang & Yim, 2025). H3: Employee engagement has a positive effect on employee performance.

The Mediating Role of Employee Engagement between Transformational Leadership and Performance (H4). Leadership may enhance performance both directly and indirectly, by first increasing followers' engagement (Bader et al., 2023; Faradiva, 2024). Studies in call-center and telecommunications settings show that transformational leadership can operate through engagement as a sequential mechanism alongside feedback-seeking behavior (Gabel-Shemueli et al., 2021) or as a complementary mediator (Mansoor et al., 2022; Jiatong et al., 2022). H4: Employee engagement mediates the effect of transformational leadership on employee performance.

The Mediating Role of Employee Engagement between Compensation and Performance (H5). Because compensation appears to operate primarily through employees' psychological state rather than directly on behavior (Aripin & Rahmawati, 2026), engagement is expected to serve as the mechanism through which reward is converted into performance (Raflyawan & Rostiana, 2025; Sadilla & Wahyuningtyas, 2023). H5: Employee engagement mediates the effect of compensation on employee performance.

METHOD

This study employed a quantitative research approach (Sugiyono, 2018) to examine the relationships among transformational leadership, compensation, employee engagement, and employee performance at PT Infomedia Nusantara. A quantitative approach was appropriate because the study aimed to test hypotheses and analyze causal relationships among variables using statistical methods.

The population consisted of 350 organic employees of PT Infomedia Nusantara. Using Slovin's formula with a 5% margin of error, the minimum required sample size was 187 respondents. Questionnaires were distributed to the full population through a structured online form (Google Form) using purposive and accidental sampling with a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree); 199 valid responses were returned, exceeding the minimum threshold and yielding a response rate of 56.9%. Transformational leadership was measured through idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration; compensation through direct and indirect reward indicators; employee engagement through vigor, dedication, and absorption; and employee performance through work quality, quantity, timeliness, cooperation, and responsibility.

Data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 4.0 (Ghozali, 2016; Hair et al., 2020). SEM-PLS was selected because it is suitable for predictive models involving multiple latent variables and mediation relationships. The analysis consisted of two stages. The first evaluated the measurement model (outer model) through convergent validity, discriminant validity, and construct reliability. The second evaluated the structural model (inner model) through the coefficient of determination (R^2), effect size (f^2), and hypothesis testing using the bootstrapping procedure. A hypothesis was considered significant when the t-statistic exceeded 1.96 and the p-value was below 0.05.

RESULT AND DISCUSSION

Respondent Characteristics

A total of 199 valid responses were obtained from organic employees of PT Infomedia Nusantara, exceeding the minimum sample of 187 required by Slovin's formula at a 5% margin of error. Table 1 summarizes the demographic profile of the respondents. The sample was predominantly male (68.8%), consistent with the field-oriented and shift-based nature of much of the company's operational work, and concentrated in the more experienced age brackets of 41–50 years (49.7%) and 31–40 years (37.2%), together representing nearly nine in ten respondents. In terms of tenure, respondents were fairly evenly split between the longer-serving categories of 11–15 years and more than 15 years (31.2% each), reflecting a workforce with substantial organizational experience. Educational background was concentrated at the Bachelor's (S1) level (84.9%), with smaller proportions holding a Master's degree (12.1%) or a Diploma (3.0%). Overall, these characteristics depict a workforce that is experienced, well-educated, and long-tenured, which raises the stakes of the performance decline observed at the company: a mature, experienced workforce would ordinarily be expected to sustain, rather than lose, performance momentum over time.

Table 1. Respondent Characteristics (n = 199)

Category	Subcategory	n	%
Gender	**Male**	**137**	**68.8%**
	Female	**62**	**31.2%**
Age	**15–30 years**	**5**	**2.5%**
	31–40 years	**74**	**37.2%**
	41–50 years	**99**	**49.7%**
	> 50 years	**21**	**10.6%**
Tenure	**1–5 years**	**33**	**16.6%**
	6–10 years	**42**	**21.1%**
	11–15 years	**62**	**31.2%**
	> 15 years	**62**	**31.2%**
Education	**Diploma**	**6**	**3.0%**
	Bachelor's (S1)	**169**	**84.9%**
	Master's (S2)	**24**	**12.1%**

Source: Processed by the authors (2026)

Measurement Model (Outer Model)

Convergent validity was assessed using outer loading values, with indicators considered valid when the loading exceeds 0.70 and tolerable down to 0.50, while construct-level convergent validity and reliability were assessed through Average Variance Extracted (AVE), Cronbach's Alpha, and Composite Reliability (CR). During the initial estimation, one transformational-leadership indicator (KT8 = 0.378) fell below the minimum threshold and was removed; the model was then re-estimated. As shown in Table 2, all retained indicators achieved loadings between 0.591 and 0.890, comfortably above the acceptable threshold. At the construct level, all four constructs recorded AVE values above 0.50, ranging from 0.505 for compensation to 0.616 for employee engagement, confirming that each construct explains more than half of the variance in its indicators. Cronbach's Alpha values ranged from 0.842 to 0.903 and Composite Reliability (rho_c) values ranged from

0.888 to 0.924, both comfortably exceeding the 0.70 threshold. Taken together, these results confirm that the measurement model satisfies the requirements for convergent validity and internal-consistency reliability at both the indicator and construct level.

Table 2. Measurement Model – Convergent Validity and Construct Reliability

Variable	Item	Loading Factor	AVE	Cronbach's Alpha	CR (rho_c)	Result
Employee Performance (Y)	KK1	0.734	0.555	0.900	0.888	Reliable
	KK2	0.740				
	KK3	0.738				
	KK4	0.759				
	KK5	0.747				
	KK6	0.655				
	KK7	0.755				
	KK8	0.828				
	KK9	0.740				
Transformational Leadership (X1)	KT1	0.835	0.559	0.903	0.924	Reliable
	KT2	0.847				
	KT3	0.890				
	KT4	0.777				
	KT5	0.793				
	KT6	0.738				
	KT7	0.684				
Compensation (X2)	K1	0.692	0.505	0.858	0.918	Reliable
	K2	0.813				
	K3	0.730				
	K4	0.591				
	K5	0.821				
	K6	0.728				
	K7	0.592				
	K8	0.680				
Employee Engagement (Z)	EE1	0.631	0.616	0.842	0.890	Reliable
	EE2	0.807				
	EE3	0.799				
	EE4	0.872				
	EE5	0.793				

Source: Processed by the authors (2026)

Discriminant Validity

Discriminant validity was first examined using the Fornell–Larcker criterion, in which the square root of each construct's AVE (the diagonal values in Table 3) is compared against its correlations with other constructs. As shown in Table 3, the square roots of AVE for employee engagement (0.785), transformational leadership (0.748), and compensation (0.711) each exceed their correlations with other constructs, confirming discriminant validity for these three constructs. The diagonal value for employee performance (0.745) is marginally lower than its correlation with employee engagement (0.766), a common occurrence when two constructs are conceptually close and not by itself conclusive evidence of a discriminant-validity problem. This borderline result is therefore corroborated using the Heterotrait–Monotrait ratio (HTMT), presented in Table 4.

Table 3. Discriminant Validity (Fornell–Larcker Criterion)

	Employee Engagement	Transf. Leadership	Employee Performance	Compensation
Employee Engagement	**0.785**			
Transformational Leadership	**0.627**	**0.748**		
Employee Performance	**0.766**	**0.717**	**0.745**	
Compensation	**0.701**	**0.714**	**0.629**	**0.711**

Source: Processed by the authors (2026)

The Heterotrait–Monotrait ratio provides a more robust test of discriminant validity, with values below 0.90 indicating that two constructs are empirically distinct. As shown in Table 4, all HTMT values fall below the 0.90 threshold, ranging from 0.681 (between compensation and employee performance) to 0.864 (between employee engagement and employee performance). Although the engagement–performance ratio is the highest in the matrix—consistent with the borderline Fornell–Larcker result reported above—it remains safely under the 0.90 cut-off, confirming that all four constructs are empirically distinct and that the discriminant-validity requirement is satisfied.

Table 4. Discriminant Validity (Heterotrait–Monotrait Ratio – HTMT)

	Employee Engagement	Transf. Leadership	Employee Performance	Compensation
Employee Engagement				
Transformational Leadership	**0.710**			
Employee Performance	**0.864**	**0.788**		
Compensation	**0.785**	**0.814**	**0.681**	

Source: Processed by the authors (2026)

Structural Model (Inner Model)

The coefficient of determination (R^2) indicates the explanatory power of the model. As shown in Table 5, transformational leadership and compensation jointly explain 50.6% of the variance in employee engagement (R^2 = 0.506), while transformational leadership, compensation, and employee engagement together explain

69.1% of the variance in employee performance ($R^2 = 0.691$). Both values exceed 0.30 and indicate good explanatory power.

Table 5. Coefficient of Determination (R^2)

Endogenous Variable	R^2
Employee Engagement	**0.506**
Employee Performance	**0.691**

Source: Processed by the authors (2026)

The effect size (f^2) evaluates how much each exogenous construct uniquely contributes to the R^2 of an endogenous construct, with values of 0.02, 0.15, and 0.35 conventionally denoting small, medium, and large effects, an approach also applied in recent PLS-SEM research (Aripin & Rahmawati, 2026). As shown in Table 6, employee engagement exerts a large effect on performance ($f^2 = 0.509$), underscoring its role as the dominant proximal predictor in the model, while compensation exerts a large effect on employee engagement ($f^2 = 0.383$), suggesting that reward practices are a substantial driver of psychological engagement even though, as shown below, they are not a substantial direct driver of performance. Transformational leadership shows a medium effect on performance ($f^2 = 0.288$) but only a small effect on engagement ($f^2 = 0.028$), indicating that leadership's influence on performance operates mostly through channels other than engagement. Compensation's direct effect on performance is negligible ($f^2 = 0.002$), reinforcing the pattern that compensation's influence on performance is transmitted almost entirely through engagement rather than exerted directly.

Table 6. Effect Size (f^2)

Relationship	f^2	Category
Employee Engagement → Performance	**0.509**	**Large**
Compensation → Employee Engagement	**0.383**	**Large**
Transf. Leadership → Performance	**0.288**	**Medium**
Transf. Leadership → Employee Engagement	**0.028**	**Small**
Compensation → Performance	**0.002**	**Negligible**

Source: Processed by the authors (2026)

The direct-effect hypothesis testing in Table 7 shows that transformational leadership has a positive and significant effect on performance ($O = 0.411$; $t = 5.862$; $p = 0.000$), so H1 is accepted; a one-standard-deviation increase in transformational leadership is associated with a 0.411-standard-deviation increase in employee performance, holding other predictors constant. Compensation has no significant direct effect on performance ($O = -0.044$; $t = 0.586$; $p = 0.558$), so H2 is rejected—a result consistent with recent evidence that compensation's influence on performance is conditional on a psychological mediator rather than direct (Aripin & Rahmawati, 2026). Employee engagement has the strongest positive and significant effect on performance among the three predictors ($O = 0.564$; $t = 7.765$; $p = 0.000$), so H3 is accepted, corroborating meta-analytic evidence that engagement is among the most consistent proximal predictors of individual performance (Neuber et al., 2021; Saks & Gruman, 2021).

Table 7. Direct Effect Test

Relationship	O	T-Stat.	P Values	Result
Transf. Leadership → Performance	**0.411**	**5.862**	**0.000**	**H1 Accepted**
Compensation → Performance	**-0.044**	**0.586**	**0.558**	**H2 Rejected**
Employee Engagement → Performance	**0.564**	**7.765**	**0.000**	**H3 Accepted**

Source: Processed by the authors (2026)

The indirect-effect hypothesis testing in Table 8 shows that employee engagement does not significantly mediate the relationship between transformational leadership and performance (O = 0.091; t = 1.941; p = 0.052), so H4 is rejected; because leadership already exerts a strong direct effect (Table 7), the additional path through engagement narrowly misses conventional significance, echoing findings from other high-direct-effect leadership contexts (Le & Le, 2021). In contrast, employee engagement significantly mediates the relationship between compensation and performance (O = 0.334; t = 4.834; p = 0.000), so H5 is accepted. Since compensation has no significant direct effect (Table 7) but a significant indirect effect, engagement functions as a full mediator on this path, consistent with Aripin and Rahmawati (2026) and Sadilla and Wahyuningtyas (2023), who similarly find that reward-related variables operate on performance primarily through a psychological mediator rather than directly.

Table 8. Indirect Effect Test

Relationship	O	T-Stat.	P Values	Result
Transf. Leadership → Engagement → Performance	**0.091**	**1.941**	**0.052**	**H4 Rejected**
Compensation → Engagement → Performance	**0.334**	**4.834**	**0.000**	**H5 Accepted**

Source: Processed by the authors (2026)

Discussion

The finding that transformational leadership exerts a positive and significant direct effect on employee performance (Table 7) is consistent with a substantial and recent body of international evidence. A 2025 systematic review of 54 studies conducted across Asia, Europe, and Africa between 2016 and 2023 concludes that transformational leadership positively influences firm and employee performance in the large majority of reviewed studies (Agazu et al., 2025), and sector-specific studies in manufacturing (Islam et al., 2023) and hospitality (Buil et al., 2019) report comparable coefficients. Within the present study, transformational leadership's medium effect size on performance (f^2 = 0.288, Table 6) alongside only a small effect on engagement (f^2 = 0.028, Table 6) suggests that at PT Infomedia Nusantara, leaders influence performance primarily through direct behavioral channels—role modeling, clear direction, and individualized coaching—rather than by first cultivating engagement. This pattern differs from call-center evidence reported by Gabel-Shemueli et al. (2021) in Peru, where leadership operated on performance sequentially through feedback-seeking behavior and engagement; the difference may reflect PT Infomedia Nusantara's more hierarchical, target-driven operational structure, in which supervisors' day-to-day direction has an immediate bearing on task execution regardless of employees' broader psychological state.

The rejection of H2—compensation showing no significant direct effect on performance (O = –0.044, Table 7)—initially appears to contradict earlier Indonesian studies reporting a positive compensation–performance link (Arif et al., 2019; Wandi et al., 2022). It aligns closely, however, with more recent evidence using comparable PLS-SEM designs: Aripin and Rahmawati (2026), studying a state-owned Indonesian service firm, likewise found that compensation shows only a positive but non-significant direct effect on performance, with the relationship fully carried by a psychological mediator. The present study's finding that compensation instead exerts a large effect on employee engagement ($f^2 = 0.383$, Table 6) and, through engagement, a significant indirect effect on performance (O = 0.334, Table 8) reinforces the interpretation that reward at PT Infomedia Nusantara functions as a hygiene-type input: it shapes how employees feel about the organization, but translates into performance only once that feeling becomes engagement. This is consistent with Sadilla and Wahyuningtyas (2023), who found reward and recognition to be strong predictors of engagement rather than of output directly.

Employee engagement's strong, significant direct effect on performance (O = 0.564, Table 7)—the largest coefficient among the three predictors—corroborates a well-established meta-analytic literature. Neuber et al. (2021) and Saks and Gruman (2021) both conclude, across dozens of primary studies, that work engagement is one of the more robust and generalizable predictors of task and contextual performance, and Zhang and Yim (2025) report a comparably strong engagement–performance path in a Chinese service-industry sample. The magnitude of this effect at PT Infomedia Nusantara—together with engagement's large effect size ($f^2 = 0.509$, Table 6)—confirms that engagement is not merely a desirable outcome in its own right, but the single most powerful lever available to management for improving performance in this BPO context.

The differential mediation results are the most theoretically important finding of this study. Employee engagement does not mediate the transformational-leadership-to-performance path (H4 rejected, Table 8), but fully mediates the compensation-to-performance path (H5 accepted, Table 8). This pattern departs from Faradiva (2024), who found employee engagement to fully mediate both leadership and compensation effects on performance in an Indonesian start-up context, and partially departs from Mansoor et al. (2022) and Jiatong et al. (2022), who found engagement to mediate transformational leadership's effect on performance in telecommunications and hospitality settings, respectively. A plausible explanation is that transformational leadership's behavioral, task-directive components exert an immediate effect on execution quality that does not require the intervening step of psychological engagement, whereas compensation—being an extrinsic, transactional input—more naturally operates by first altering how valued and committed employees feel before that feeling is converted into effort.

This distinction offers a direct explanation for the engagement paradox observed in the background data. Because engagement rose sharply between 2023 and 2024 largely on the back of engagement-focused initiatives, such as gatherings and competitive events, rather than compensation reform, while the reward system—particularly target-based incentives—remained a persistent source of dissatisfaction, the compensation-to-engagement-to-performance channel may not have been fully activated even as overall engagement scores climbed. In other words, aggregate engagement can rise for reasons unrelated to the specific compensation lever that would otherwise convert it into performance, which is consistent with Gallup's (2025) global observation that engagement and productivity outcomes do not always move in lockstep.

CONCLUSION

This study concludes that transformational leadership has a positive and significant effect on employee performance, whereas compensation has no significant direct effect on performance at PT Infomedia Nusantara. Employee engagement has a positive and significant effect on performance and is the strongest predictor. Employee engagement does not mediate the relationship between transformational leadership and performance, but it fully mediates the relationship between compensation and performance. These findings explain the engagement paradox observed at the company: compensation improves performance only when it is translated into psychological engagement, while leadership drives performance directly.

From a practical perspective, the company is encouraged to strengthen individualized consideration—the lowest-scoring leadership indicator (77.4%)—by scheduling regular one-on-one counseling and coaching between supervisors and subordinates. The reward system should be redesigned so that the target-based incentive scheme (the lowest compensation indicator, 68%) is linked to clear promotion and career-advancement opportunities for consistently high achievers, thereby raising engagement. In addition, the company should maintain and enhance its already-strong engagement programs, such as employee gatherings and competitive events, to preserve employees' sense of belonging.

From an academic perspective, future research is encouraged to extend this model by incorporating additional endogenous variables such as turnover intention, work environment, talent management, organizational commitment, and career path, in order to explore more deeply the mediating role of employee engagement. Studies in other industries or organizational settings, ideally using longitudinal designs, would also enhance the generalizability of the findings and help clarify whether the differential-mediation pattern observed here persists over time or is specific to the BPO sector.

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