



Research Article

TRANSACTIONAL LEADERSHIP AND COMPENSATION AS MEDIATORS OF THE INFLUENCE OF WORKFORCE AGILITY AND PSYCHOLOGICAL EMPOWERMENT ON EMPLOYEE PERFORMANCE AT PDAM TIRTA INDRA, INDRAGIRI HULU, RIAU

***Raja Marwan Indra Saputra, Budiyanto and Agustedi**

Sekolah Tinggi Ilmu Ekonomi Indonesia, Surabaya

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Abstract

This study adopts social exchange theory as a theoretical framework to investigate the mediating role of transactional leadership and compensation in the influence of workforce agility and psychological empowerment on employee performance. The research sample consists of 143 employees of PDAM Tirta Indra, Indragiri Hulu, Riau. Data were analyzed using structural equation modeling (SEM) with partial least squares (PLS). This study proposes transactional leadership and compensation as strategies to improve employee performance. The results indicate that workforce agility has an influence on employee performance, whereas psychological empowerment does not have an influence on employee performance. Moreover, transactional leadership mediates the influence of workforce agility on employee performance, while compensation mediates the influence of psychological empowerment on employee performance. These results reinforce social exchange theory, suggesting that high workforce agility, when supported by transactional leadership and adequate compensation, constitutes an effective strategy for improving employee performance.

Keywords: Social exchange theory, Employee performance, Workforce agility, Psychological empowerment, Transactional leadership, Compensation

INTRODUCTION

The success of a company in achieving its objectives is inextricably linked to the role of its employees. Employees are not merely objects in achieving corporate objectives but also subjects or actors. They can be planners, implementers and controllers who always play crucial roles in realizing corporate objectives. Their thoughts, emotions, and aspirations significantly influence their attitudes toward work. The company's ability to empower the potential of human resources is greatly needed in improving employee performance and the company's success in achieving its objectives. Therefore, the management of human resources (HR) must be approached comprehensively within the framework of a strategic HRM system that continuously develops employee competencies and skills to foster high performance.

The following Table 1. presents data on the total volume of water produced by PDAM Tirta Indra from 2018 to 2023.

Table 1. Total volume of water production at PDAM Tirta Indra from 2018 to 2023

No	Year	Water Production Volume (M3)	Total Income
1	2018	5,544,884	IDR 13,361,769,632
2	2019	5,915,243	IDR 14,231,022,833
3	2020	5,586,657	IDR 14,901,019,077
4	2021	7,060,083	IDR 15,494,158,570
5	2022	6,277,696	IDR 15,102,335,679
6	2023	6,913,456	IDR 14,831,482,326

Source: PDAM Tirta Indra in 2023.

Analysis of Table 1.1 reveals fluctuations in water production, which, according to researchers, may be attributed to suboptimal employee performance.

*Corresponding Author: *Raja Marwan Indra Saputra*, Sekolah Tinggi Ilmu Ekonomi Indonesia, Surabaya

In 2023, water production increased by 636,760 m³ (10.13%) compared to 2022. However, despite this rise in output, revenue declined by IDR 270,853,353 (1.79%). This inverse relationship suggests that higher water production does not necessarily translate into increased revenue, indicating potential inefficiencies in operational or financial management. Further indications of declining employee performance are observed in the increasing number of customer complaints. Researchers note a consistent upward trend in customer complaints regarding PDAM Tirta Indra's services over the years. The following Table 2 presents data on the volume of customer complaints received by PDAM Tirta Indra from 2018 to 2023. Analysis of Table 2 reveals a consistent upward trend in customer complaints regarding PDAM Tirta Indra's services from 2018 to 2023. In 2023, the number of complaints increased by 45 cases, reflecting an 8.47% rise compared to 2022. The most frequent complaints were related to Low Water Pressure (43.73%), Murky Water (38.43%), and High Payment Costs (7.06%). One of the most prevalent issues reported by customers was Low Water Pressure, often attributed to suboptimal maintenance and management of distribution infrastructure, particularly pipeline networks. This inefficiency has led to consumer dissatisfaction, suggesting that employee performance in ensuring a stable Water Pressure remains below customer expectations. Consequently, these service deficiencies may hinder PDAM Tirta Indra's ability to achieve its operational and performance targets. Based on a review of relevant theories, previous studies, and field observations regarding employee performance at PDAM Tirta Indra, this study adopts Social Exchange Theory (SET) as a theoretical framework for addressing performance-related issues. SET posits that high-quality relationships between employees and organizations are built on reciprocal interactions, where both parties have mutual obligations to achieve corporate objectives (Blau, 1964; Cropanzano & Mitchell, 2005).

Table 2. Management of customer complaints at PDAM Tirta Indra from 2018 to 2023

No	Year	Volume of Customer complaints	Low Water Pressure	Murky Water	High Payment Costs	Pipe Leakage	Slow Handling
1	2018	475 complaints	217	178	49	21	10
2	2019	493 complaints	194	223	36	18	22
3	2020	503 complaints	226	205	17	34	21
4	2021	484 complaints	184	201	39	41	19
5	2022	531 complaints	205	231	26	52	17
6	2023	576 complaints	312	140	51	48	23
			43.73%	38.43%	7.06%	7.06%	3.72
<i>Complaint ranking in 2023</i>			<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>

Source: PDAM Tirta Indra in 2024

According to Blau (1964), interactions within an organization are interdependent, meaning that the behavior of one party influences and is influenced by others. Furthermore, Locke (1968:125) emphasized that two key cognitive factors values and intentions play a crucial role in shaping individual behavior. Based on this theoretical framework, individuals set behavioral goals that subsequently drive their actions. The next step taken is the identification of key causal variables contributing to the suboptimal performance of PDAM Tirta Indra employees, namely workforce agility and psychological empowerment variables. Several studies have revealed that workforce agility has an influence on employee performance, including those by Varshney and Varshney (2020), Wahjuniyanto (2022), Yusuf *et al.* (2023), Sumandar *et al.* (2023), Toritseju *et al.* (2021), Tripathi and Kalia (2022), Noach *et al.* (2023), Petermann and Zacher (2022), Rahardi *et al.* (2022), Saptarini and Mustika (2023), Nadzim and Halim (2022), and Makori *et al.* (2022). However, other studies, such as those by Abrishamkar *et al.* (2020) and Catenacci-Francois (2018), revealed no significant influence of workforce agility on employee performance. Similarly, studies on the influence of psychological empowerment on employee performance have yielded mixed results. Studies by Andika and Darmanto (2020), Astutik and Surjanti (2018), Alfiana (2020), Janardhanan and Raghavan (2018), Kaguchia *et al.* (2019), Levina (2021), Nadeem *et al.* (2018), and Nyoku (2020) revealed a significant influence. However, other studies, such as those by Tripathi *et al.* (2019) and Yao *et al.* (2019), revealed no significant influence. Given the inconsistencies in previous studies' results regarding the influence of workforce agility and psychological empowerment on employee performance, this study introduces a mediation model incorporating transactional leadership and compensation as mediating variables. The novelty of this study lies in addressing employee performance issues through a mediation model, proposing that workforce agility and psychological empowerment, when supported by transactional leadership and adequate compensation, constitutes an effective strategy for improving employee performance at PDAM Tirta Indra. This approach is justified by the fact that previous studies have primarily treated transactional leadership and compensation as independent (exogenous) variables, analyzing their direct influence on performance. By incorporating them as mediating variables, this study aims to further validate Social Exchange Theory (SET) in the context of employee performance, workforce agility, psychological empowerment, transactional leadership, and compensation.

LITERATURE REVIEW

The influence of workforce Agility on employee performance at PDAM Tirta Indra

Workforce agility has been widely recognized as a critical factor in improving organizational performance.

Studies suggest that an agile workforce offers various benefits, including high-quality intelligent services, effective learning curves, and optimal scale (Hopp & Oyen, 2004). Empirical studies indicate a significant relationship between employee agility and organizational performance (Goodarzi, Khosro, Ghaniyoun, & Heidari, 2018). Additionally, an agile workforce facilitates effective decision-making processes (Sumukadas & Sawhney, 2004) and strengthens organizational crisis management capabilities (Aghahosseini, Rezaie, & Nilipour, 2016). From a strategic perspective, workforce agility is rooted in employees' adaptability, responsiveness, and readiness to address emerging challenges. This adaptability often translates into a sustainable competitive advantage for organizations (Bahrami, Kiani, Montazeralfaraj, Zadeh, & Zadeh, 2016). Consistent with this perspective, several studies (Abrishamkar, 2020; Das *et al.*, 2022; Dehghani *et al.*, 2020) have found that workforce agility directly influences employee performance. However, contradictory results exist, with some researchers arguing that workforce agility has no significant influence on employee performance (Samer, 2020; Varshney & Varshney, 2020). Based on the explanation, this study formulates the following hypothesis:

H1: Workforce agility has a significant influence on employee performance at PDAM Tirta Indra.

The influence of psychological empowerment on employee performance at PDAM Tirta Indra

Psychological empowerment refers to an employee's perception of their role within an organization, specifically their belief in their ability to make meaningful contributions. It is considered a crucial factor in organizational success due to its potential to drive positive work outcomes that align with overall corporate objectives (Tetik, 2016). Psychological empowerment has also been linked to employee job satisfaction, which in turn influences performance (Minggu, 2016). Bandura (1986) conceptualizes empowerment as an intrinsic motivator, emphasizing an individual's self-awareness regarding their actions and roles, particularly in relation to meaning, capability, and autonomy. Similarly, Spreitzer (1995) defines psychological empowerment as a set of motivational cognitions shaped by the work environment, which fosters an active and engaged approach to one's job responsibilities. Based on these perspectives, psychological empowerment improves employees' sense of significance within the workplace, thereby positively influencing performance. Empirical studies support this relationship. Studies by Ahmed & Malik (2019), Iqbal *et al.* (2020), and Kundu *et al.* (2019) suggest that psychological empowerment has an influence on employee performance. However, contradictory results exist, as studies by Tripathi *et al.* (2019) and Yao *et al.* (2019) conclude that psychological empowerment does not have an influence on employee performance. Based on the explanation, this study formulates the following hypothesis:

H2: Psychological empowerment has a significant influence on employee performance at PDAM Tirta Indra.

Transactional leadership as a mediator of the influence of workforce agility on employee performance at PDAM Tirta Indra

From a capability perspective, workforce agility is defined as the ability to respond to change in a timely manner and and capitalize on new opportunities (Kidd, 1994). Agile employees demonstrate a continuous learning mindset, strong problem-solving abilities, adaptability to change and technological advancements, and readiness to assume new responsibilities (Plonka, 1997). Transactional leadership is based on an exchange process between leaders and employees, where both parties mutually agree on actions and responsibilities in exchange for expected rewards (Avolio *et al.*, 2003; Baah & Ampofo, 2015; Hoxha, 2019) and other incentives (Ali *et al.*, 2014). The relationship between transactional leadership and employee performance means that by using a transactional leadership style, a leader can motivate employees to become more productive and efficient team members (Masa'deh *et al.*, 2015; Advani and Abbas, 2015), thereby improving company effectiveness and performance. Moreover, transactional leaders engage agile employees in structured discussions about organizational expectations and performance goals, fostering alignment and improving overall performance. Empirical studies suggest that transactional leadership improve employee performance (Kalsoom *et al.*, 2018; Advani & Abbas, 2015; Paracha *et al.*, 2012; Hoxha, 2019). Given its directive and performance-driven nature, transactional leadership is expected to reinforce the positive influence of workforce agility on employee performance. Despite extensive research on transactional leadership and workforce agility, existing literature does not provide conclusive evidence on transactional leadership as a mediator of the influence of workforce agility on employee performance. Therefore, this study formulates the following hypothesis:

H3: Transactional leadership mediates the influence of workforce agility on employee performance at PDAM Tirta Indra.

Compensation as a mediator of the influence of psychological empowerment on employee performance at PDAM Tirta Indra

Providing fair and appropriate compensation is a fundamental strategy to motivate employees to improve their performance, ultimately benefiting both the workforce and the company (organization). Psychological empowerment refers to an employee's perceived ability, autonomy, and influence within the workplace (Meyerson & Kline, 2007). It enables employees to recognize their skills and improve their capabilities, fostering an intrinsic motivation to excel (Jha, 2011). Psychological empowerment induces positive behavioral changes, as empowered employees tend to exhibit higher self-efficacy, proactive problem-solving abilities, and superior job performance (Ravichandran & Gilmore, 2006; Khan, Saboor & Ali, 2011; Tetik, 2016). However, in order for psychological empowerment to yield tangible performance improvements, compensation plays a crucial role. Compensation is something of value received by employees in exchange for employees' contributions and commitment to achieving organizational objectives. Noe *et al.* (2020)

emphasize that salary (compensation) significantly influences employee performance, necessitating structured and strategic remuneration planning. Employees are more likely to feel engaged and motivated when their skills and contributions are recognized, appreciated, and rewarded appropriately. Empirical studies supports the notion that compensation has an influence on employee performance (Purwandira & Adnyani, 2014; Damayanti *et al.*, 2013; Khan *et al.*, 2021; Martin *et al.*, 2021; Meyer *et al.*, 2022; Orakwe *et al.*, 2021; Tarurhor, 2021; Wang *et al.*, 2021; Zoghiami, 2020). However, contradictory results exist, with some researchers arguing that compensation does not have an influence on employee performance (Chen & Hasan, 2022; Miles & Angelis, 2021; Rezeki & Hidayat, 2021; Ferry *et al.*, 2021).

Despite extensive research on compensation and employee performance, there is limited evidence on compensation as a mediating variable in the influence of psychological empowerment on employee performance. This study posits that competitive and equitable compensation may be able to act as a mediator to improve employee performance. Therefore, this study formulates the following hypothesis:

H4: Compensation mediates the influence of psychological empowerment on employee performance at PDAM Tirta Indra.

Researchers present the conceptual framework for this study in the following figure:

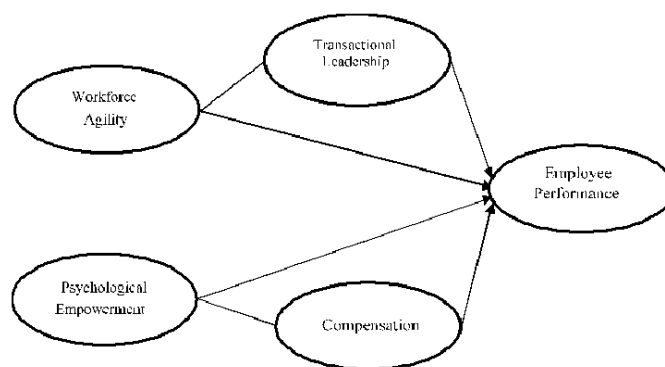


Figure 1. Conceptual Framework

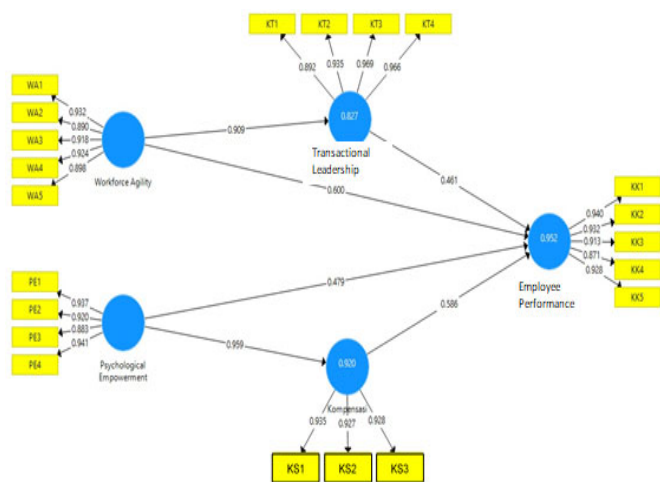
METHODS

To test the proposed research model, this study focused on employees of PDAM Tirta Indra in Indragiri Hulu as the research sample. The study acknowledges the role of transactional leadership and compensation in improving employee performance. PDAM Tirta Indra was selected as the research setting due to its critical role in public service delivery, where employee negligence—such as murky water supply, inaccurate meter readings, and poor service quality can lead to customer complaints and financial inefficiencies. The study employed a quantitative research approach using survey questionnaires as the primary data collection method. The sample consisted of 108 employees of PDAM Tirta Indra. Data were analyzed using Structural Equation Modeling (SEM) with SMARTPLS 3.0 to test the proposed hypotheses. In this study, employee performance was assessed using indicators from Mitchell (2001), which include 1) work quality, 2) punctuality, 3) initiative, 4) ability, and 5) communication. Transactional leadership was assessed based on the model developed by Robbins and Judge (2009:91) and Bass *et al.* (2004), with

indicators including 1) conditional rewards, 2) active exception management, 3) passive exception management, and 4) situational decision-making. Compensation was assessed using the framework from Milkovich *et al.* (2014) and Mathis *et al.* (2017), including 1) salary, 2) incentives, and 3) insurance. Workforce agility was assessed based on the criteria set by Sherehiy and Karwowski (2014) and Virchez (2015), which include 1) proactivity, 2) adaptability, 3) resilience, 4) business orientation, and 5) independent self-development. Psychological empowerment was assessed based on the model proposed by Thomas and Velthouse (1990), with indicators including 1) meaning, 2) competence, 3) self-determination, and 4) impact.

RESULTS AND DISCUSSION

The respondents of the study were 108 employees of PDAM Tirta Indra, with the majority (70.40%) having an educational background of high school or its equivalent. Most respondents had work experience ranging from 2 to 5 years and were in the age group between 30 and 40 years. Respondents' responses to employee performance variables are in the high category, with communication being the highest achievement indicator and punctuality being the lowest achievement indicator. Respondents' responses to workforce agility variables are in the high category, with resilience being the highest achievement indicator and adaptability being the lowest achievement indicator. Respondents' responses to psychological empowerment variables are in the high category, with readiness to work according to profession (competence) being the highest achievement indicator and self-determination being the lowest achievement indicator. Respondents' responses to transactional leadership variables are in the very high category, with conditional rewards being the highest achievement indicator and passive exception management being the lowest achievement indicator. Researchers present the research path model for this study in the following figure:



Source: SmartPLS 3.0

Figure 2. Research Path Model

Measurement Model Analysis (Outer Model)

Convergent Validity Test

The results of the convergent validity test of the data in this study are presented in the following Table 3:

Table 3. Factor Loading

Variable	Indicator	Factor Loading
Employee performance (KK)	KK1= Work Quality	0.940
	KK2= Punctuality	0.932
	KK3= Initiative	0.913
	KK4= Ability	0.871
	KK5= Communication	0.928
Compensation (KS)	KS1= Salary	0.935
	KS2= Incentives	0.927
	KS3= Insurance	0.928
Transactional Leadership (KT)	KT1= Conditional rewards	0.892
	KT2= Active Exception Management	0.935
	KT3= Passive Exception Management	0.969
	KT4= Situational Decision-Making	0.966
Psychological Empowerment (PE)	PE1= Meaning	0.937
	PE2= Competence	0.920
	PE3= Self-Determination	0.883
	PE4= Impact	0.941
Workforce Agility (WA)	WA1= Proactivity	0.932
	WA2= Adaptability	0.890
	WA3= Resilience	0.918
	WA4= Business Orientation	0.924
	WA5= Independent self-development	0.898

Source: SmartPLS 3.0

Based on the outer loading values presented in Table 3, any factor loading value <0.5 must be removed from the model, and the factor loading values must be re-estimated. After eliminating factor loadings <0.5, all remaining indicators were retained for further analysis. Convergent validity is achieved when all factor loadings >0.5. Since all factor loadings in this study are >0.5, it confirms that all indicators are valid in constructing their respective variable constructs.

Discriminant Validity Test

The results of the discriminant validity test for the variables are presented in the following Table 4:

Table 4. Cross Loading Values

Indicator	KT	KK	KS	PE	WA
KK1= Work Quality	0.789	0.940	0.750	0.826	0.901
KK2= Punctuality	0.921	0.932	0.860	0.947	0.918
KK3= Initiative	0.926	0.913	0.821	0.920	0.885
KK4= Ability	0.795	0.871	0.691	0.773	0.786
KK5= Communication	0.757	0.928	0.714	0.801	0.890
KS1= Salary	0.852	0.742	0.935	0.890	0.820
KS2= Incentives	0.887	0.861	0.927	0.937	0.867
KS3= Insurance	0.894	0.731	0.928	0.842	0.776
KT1= Conditional rewards	0.892	0.738	0.915	0.835	0.783
KT2= Active Exception Management	0.935	0.855	0.853	0.886	0.806
KT3= Passive Exception Management	0.969	0.928	0.900	0.956	0.925
KT4= Situational Decision-Making	0.966	0.914	0.894	0.951	0.898
PE1= Meaning	0.907	0.911	0.856	0.937	0.897
PE2= Competence	0.926	0.913	0.821	0.920	0.885
PE3= Self-Determination	0.840	0.746	0.923	0.883	0.841
PE4= Impact	0.882	0.864	0.931	0.941	0.881
WA1= Proactivity	0.919	0.936	0.866	0.949	0.932
WA2= Adaptability	0.917	0.910	0.819	0.915	0.890
WA3= Resilience	0.752	0.780	0.796	0.817	0.918
WA4= Business Orientation	0.772	0.791	0.817	0.836	0.924
WA5= Independent self-development	0.762	0.925	0.731	0.807	0.898

Source: SmartPLS 3.0

Based on Table 4, the model has good discriminant validity if the loading value of each indicator for its respective latent variable is greater than its correlation with other latent variables. In this study, the cross-loading values for each indicator are higher for their respective latent variables compared to other variables, indicating that each construct exhibits good (strong) discriminant validity.

Construct Reliability Test

Average Variance Extracted(AVE) has a value of >0.5 and Composity Reliability (CR) has a value of >0.7, meaning that the construct built is good or reliable(Hair *et al.*, 2019). The following table presents the Construct Reliability:

Table 5. Construct Reliability

Variables	Cronbach's Alpha	Composite Reliability
Transactional Leadership	0.957	0.969
Employee performance	0.953	0.964
Compensation	0.922	0.951
Psychological Empowerment	0.939	0.957
Workforce Agility	0.950	0.961

Source: SmartPLS 3.0

Structural Model Analysis (Inner Model)

Coefficient of Determination (R2): The following table presents the R-Square values in this study:

Table 6. R-Square

Variables	R Square
Transactional Leadership	0.827
Employee performance	0.952
Compensation	0.920

Source: SmartPLS 3.0

The R² values of 0.67, 0.33, and 0.19 indicate that models can be categorized as “good,” “moderate,” and “weak,” respectively (Hair *et al.*, 2019). Based on Table 4, the R² value for the employee performance variable is 0.952, indicating that 95.20% of the variance in employee performance is explained by workforce agility, psychological empowerment, transactional leadership, and compensation. This suggests that the model demonstrates a strong explanatory power and is categorized as good.

Predictive Relevance (Q2): The Q² value functions similarly to the coefficient of determination (R²). A Q² value greater than 0 indicates that the model has predictive relevance, whereas a Q² value below 0 suggests a lack of predictive relevance(Hair *et al.*, 2019)A higher Q² value implies that the model exhibits a better fit with the data. The Q² value in this study is calculated as follows:

$$Q2 = 1 - (1 - R1^2)(1 - R2^2) \dots (1 - Rn^2)$$

$$Q2 = 1 - (1 - 0.952)$$

$$Q2 = 1 - 0.048$$

$$Q2 = 0.952$$

The calculation results in a Q² value of 0.722, meaning that the variables included in the model can explain 72.2% of the variance, while the remaining 27.8% is influenced by variables not examined in this study.

Hypothesis Analysis

The following table presents the results of the hypothesis testing:

Table 7. Hypothesis Test Results

	Original Sample (O)	T Statistics (O/STDEV)	P Values	Information
Workforce Agility -> Employee performance	0.600	4.253	0.000	Accepted
Psychological Empowerment -> Employee Performance	0.479	1.481	0.139	Rejected
Workforce Agility -> Transactional Leadership -> Employee Performance	0.419	2.594	0.010	Accepted
Psychological Empowerment -> Compensation -> Employee Performance	0.562	3.704	0.000	Accepted

Source: SmartPLS 3.0

Hypothesis 1

The direct influence of Workforce Agility on employee performance at PDAM Tirta Indra, Indragiri Hulu, Riau is 0.600, with a T-statistic of 4.253 (greater than 1.96) and a P-Value of 0.000 (less than 0.05). These results indicate that Workforce Agility has a significant positive influence on employee performance. This result suggests that an increase in Workforce Agility leads to improved employee performance. Therefore, the first hypothesis (H1) which states that Workforce Agility has a significant influence on employee performance is accepted.

Hypothesis 2

The direct influence of Psychological Empowerment on employee performance at PDAM Tirta Indra, Indragiri Hulu, Riau is 0.479, with a T-statistic of 1.482 (less than 1.96) and a P-Value of 0.139 (greater than 0.05). These values indicate that Psychological Empowerment does not have a significant influence on employee performance. This result suggests that an increase in Psychological Empowerment does not necessarily lead to higher performance among employees. Therefore, the second hypothesis (H2) which states that Psychological Empowerment has a significant influence on employee performance is rejected.

Hypothesis 3

The indirect influence of Workforce Agility on employee performance through Transactional Leadership at PDAM Tirta Indra, Indragiri Hulu, Riau is 0.419, with a T-statistic of 2.954 (greater than 1.96) and a P-Value of 0.010 (less than 0.05). This result suggests that Transactional Leadership serves as a significant mediator in the influence of Workforce Agility on employee performance. Therefore, the third hypothesis (H3) which states that Transactional Leadership mediates the influence of workforce agility on employee performance is accepted.

To determine whether Transactional Leadership provides full or partial mediation, the Variance Accounted For (VAF) method is applied. Based on the data from Appendix 6 (page 248) and Appendix 11 (page 252), the VAF calculation is performed as follows:

$$VAF = \frac{\text{Indirect Influence}}{\text{Total Influence}} \times 100$$

$$VAF = \frac{0.419}{0.419 + 0.708} \times 100$$

$$VAF = 37.18\%$$

Since the Variance Accounted For (VAF) value falls within the range of 20% < VAF < 80%, it indicates that Transactional Leadership serves as a partial mediator.

Hypothesis 4

The indirect influence of Psychological Empowerment on employee performance through Compensation at PDAM Tirta Indra, Indragiri Hulu, Riau is 0.562, with a T-statistic of 3.704 (greater than 1.96) and a P-value of 0.000 (less than 0.05). This result suggests that compensation serves as a significant mediator in the influence of Psychological Empowerment on employee performance. Therefore, the fourth hypothesis (H4) which states that Compensation mediates the influence of Psychological Empowerment on employee performance is accepted.

To determine whether Compensation provides full mediation or partial mediation, the Variance Accounted For (VAF) method is applied. Based on the data from Appendix 6 (page 248) and Appendix 11 (page 252), the VAF calculation is performed as follows:

$$\text{VAF} = \frac{\text{Indirect Influence}}{\text{Total Influence}} \times 100$$

$$\text{VAF} = \frac{0.562}{0.562 + 0.107} \times 100$$

$$\text{VAF} = 84.01\%$$

Since the Variance Accounted For (VAF) value > 0.80 (or 80%), specifically 84.01%, it indicates that Compensation serves as a full mediator.

Conclusion

This study aims to reinforce social exchange theory by developing a conceptual model incorporating employee performance, workforce agility, psychological empowerment, transactional leadership, and compensation. The results indicate that three out of the four proposed hypotheses are accepted (supported), with the exception of Hypothesis 2, which suggests that psychological empowerment does not have a significant influence on employee performance. Among the examined relationships, the most influential (effective) pathway for improving employee performance is through the mediating role of compensation in the influence of psychological empowerment on employee performance, as it demonstrates the strongest total influence compared to other relationships in the model. This study, therefore, provides empirical support for the reinforcement of social exchange theory. From a managerial perspective, strategies to improve employee performance should focus on strengthening transactional leadership and compensation.

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