Examining the Effects of Compensation and Leadership Style on Employee Performance: Evidence From The Public Works and Spatial Planning Agency of Mentawai Islands Regency

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DOI: https://doi.org/10.47772/IJRISS.2026.100600534

Received: 06 June 2026; Accepted: 11 June 2026; Published: 29 June 2026

ABSTRACT

This study aims to analyze the effect of compensation and leadership style on employee performance, with job satisfaction as an intervening variable, at the Public Works and Spatial Planning Office of the Mentawai Islands Regency. The study used a quantitative approach with a census method involving 184 employees. Data analysis was conducted using Partial Least Squares-Structural Equation Modeling (PLS-SEM) with the help of SmartPLS 3. The results of the study indicate that compensation has a positive and significant effect on employee performance. Leadership style does not directly affect employee performance, but has a significant effect on job satisfaction. Job satisfaction has a significant effect on employee performance. The results of the mediation test indicate that job satisfaction does not mediate the effect of compensation on employee performance, but is able to mediate the effect of leadership style on employee performance. These findings contribute to the development of human resource management theory in the public sector, particularly in the context of local government organizations in the archipelago.

Keywords: Compensation, Leadership Style, Job Satisfaction, Employee Performance, Mentawai Islands

INTRODUCTION

Employee performance is one of the most critical determinants of organizational success, particularly in public sector institutions where employees are responsible for delivering public services and implementing government programs. High employee performance contributes to organizational effectiveness, accountability, and the achievement of strategic objectives. In the context of public organizations, employee performance extends beyond task completion and encompasses service quality, responsibility, discipline, and commitment to organizational goals. Therefore, enhancing employee performance has become a major concern for both researchers and practitioners in public administration and human resource management (Robbins & Judge, 2017).

Compensation is widely recognized as an important factor influencing employee attitudes and performance. Compensation refers to all financial and non-financial rewards provided by an organization in return for employees' contributions and services (Hasibuan, 2019). According to Equity Theory, employees assess the fairness of compensation by comparing their contributions with the rewards they receive (Adams, 1963). When employees perceive compensation as fair and equitable, they are more likely to experience higher motivation, stronger organizational commitment, and improved job performance. Previous studies have shown that a well-designed compensation system can positively affect employee satisfaction and performance, particularly when employees perceive fairness in reward allocation (Idris et al., 2020; Nugroho et al., 2022).

In addition to compensation, leadership style plays a significant role in shaping employee behavior and organizational outcomes. Leadership is the ability to influence, motivate, and guide employees toward achieving organizational objectives. Among various leadership approaches, transformational leadership has been extensively studied because of its ability to inspire employees, encourage innovation, and strengthen organizational commitment. Transformational leaders foster a supportive work environment by providing vision, encouragement, and recognition to employees. As a result, employees become more motivated to perform effectively and contribute to organizational success (Khan et al., 2022). Effective leadership is therefore considered an essential element in improving employee productivity and organizational performance.

Although compensation and leadership style are important determinants of employee performance, their influence may not always occur directly. Job satisfaction is often regarded as a key psychological factor that explains how organizational practices affect employee outcomes. According to Herzberg's Two-Factor Theory, job satisfaction is influenced by motivator factors, such as achievement and recognition, as well as hygiene factors, including salary, working conditions, and organizational policies (Herzberg, 2017). Employees who are satisfied with their jobs generally demonstrate higher levels of motivation, commitment, and productivity. Furthermore, previous studies have suggested that job satisfaction mediates the relationship between compensation, leadership style, and employee performance (Nguyen & Hua, 2020). However, empirical findings regarding this mediating role remain inconsistent across different organizational contexts.

The Public Works and Spatial Planning Agency of Mentawai Islands Regency represents an important setting for examining these relationships. As a local government institution responsible for infrastructure development and public service delivery, the agency is expected to maintain high levels of organizational performance. Nevertheless, fluctuations in performance indicators, budget realization achievements, and employee attendance rates indicate that organizational performance has not yet been consistently achieved. These conditions suggest that employee performance may be influenced not only by technical and operational factors but also by human resource management factors, including compensation, leadership style, and job satisfaction. Consequently, understanding the interaction among these variables is essential for improving organizational effectiveness within the public sector.

Despite the growing body of literature on compensation, leadership style, job satisfaction, and employee performance, several research gaps remain. Most previous studies have been conducted in private-sector organizations, while empirical evidence from local government institutions remains limited. Moreover, previous studies have reported inconsistent findings regarding the direct effects of compensation and leadership style on employee performance, as well as the mediating role of job satisfaction (Idris et al., 2020; Mohamud et al., 2024). Therefore, this study aims to examine the influence of compensation and leadership style on employee performance through the mediating role of job satisfaction in the Public Works and Spatial Planning Agency of Mentawai Islands Regency. The findings are expected to enrich the human resource management literature in the public sector and provide practical recommendations for policymakers seeking to improve employee performance and organizational effectiveness.

LITERATURE REVIEW

Employee Performance

Employee performance refers to the extent to which employees successfully accomplish their assigned duties and contribute to organizational objectives through the quality, quantity, and timeliness of their work. In public sector organizations, employee performance is not only evaluated based on productivity but also on accountability, discipline, responsibility, and commitment to public service. According to Robbins and Judge (2017), employee performance reflects employees' effectiveness in executing tasks that support organizational goals. Similarly, Mangkunegara (2017) defines employee performance as the quality and quantity of work achieved by employees in carrying out their responsibilities. Therefore, employee performance is considered a critical indicator of organizational success and effectiveness, particularly within government institutions.

Compensation

Compensation is defined as all forms of financial and non-financial rewards provided by an organization in exchange for employees' contributions and services. Compensation includes salaries, incentives, bonuses, allowances, benefits, and other rewards intended to motivate employees and improve organizational outcomes

(Hasibuan, 2019). The concept of compensation is supported by Equity Theory, which suggests that employees evaluate the fairness of rewards by comparing their contributions with the compensation they receive (Adams, 1963) When employees perceive compensation as fair and equitable, they are more likely to experience higher motivation, job satisfaction, and performance. Previous studies have also demonstrated that compensation positively influences employee attitudes and work outcomes, making it an important factor in human resource management (Idris et al., 2020).

Leadership style

Leadership style refers to the behavioral approach used by leaders to influence, direct, and motivate employees toward achieving organizational objectives. Effective leadership creates a supportive work environment that encourages employees to perform beyond minimum expectations. Transformational leadership, in particular, has been widely recognized as an effective leadership approach because it inspires employees through vision, motivation, trust, and personal development (Bass & Riggio, 2006). According to Northouse (2021), leadership style significantly affects employee attitudes, commitment, and performance. Empirical studies have further shown that transformational leaders can improve employee performance by enhancing motivation, engagement, and psychological capital, thereby contributing to organizational effectiveness (Khan et al., 2022).

Job Satisfaction

Job satisfaction refers to an employee's positive emotional response toward their job, resulting from the evaluation of work experiences and organizational conditions. Herzberg's Two-Factor Theory explains that job satisfaction is influenced by motivator factors, such as achievement and recognition, as well as hygiene factors, including salary, working conditions, and organizational policies (Herzberg, 2017). Employees who experience higher levels of job satisfaction tend to demonstrate greater commitment, motivation, and productivity within the organization. Robbins and Judge (2017), argue that satisfied employees are more likely to exhibit positive work behaviors and contribute to organizational success. Furthermore, previous studies have found that job satisfaction serves as an important psychological mechanism linking organizational practices, such as compensation and leadership style, to employee performance outcomes (Nguyen & Hua, 2020).

Hypothesis

Compensation on employee performance.

Compensation is an important organizational mechanism that motivates employees to improve their work performance. Employees who perceive compensation as fair and commensurate with their contributions tend to demonstrate higher levels of commitment, motivation, and productivity. Fair compensation not only fulfills employees' economic needs but also creates a sense of appreciation and recognition from the organization. Previous studies have reported that compensation significantly improves employee performance because employees are more willing to exert effort when they receive appropriate rewards for their contributions (Anwar & Abdullah, 2021; Muguongo et al., 2015). Therefore, compensation is expected to positively influence employee performance.

H1: Compensation has a positive and significant effect on employee performance.

Leadership Style on employee performance.

Leadership style plays a crucial role in influencing employee behavior and organizational outcomes. Leaders who provide support, clear direction, and motivation can enhance employees' confidence and willingness to achieve organizational goals. Transformational leadership, in particular, has been found to improve employee performance by encouraging innovation, engagement, and organizational commitment. Employees working under effective leadership tend to demonstrate higher productivity and better job outcomes. Empirical evidence indicates that leadership style has a significant positive effect on employee performance across various organizational settings (Eliyana et al., 2019; Asbari et al., 2021). Therefore, leadership style is expected to positively affect employee performance.

H2: Leadership Style has a positive and significant effect on employee performance.

Compensation on job satisfaction.

Compensation is one of the most important determinants of job satisfaction because it reflects the organization's appreciation for employee contributions. Employees who perceive compensation as fair and adequate are more likely to feel valued and satisfied with their jobs. Fair compensation can reduce dissatisfaction and increase employees' positive attitudes toward the organization. Previous studies have demonstrated that compensation significantly enhances job satisfaction by fulfilling employees' financial expectations and strengthening perceptions of organizational support (Darma & Supriyanto, 2017; Nawab & Bhatti, 2011). Therefore, compensation is expected to positively influence job satisfaction.

H3: Compensation has a positive and significant effect on job satisfaction.

Leadership Style on job satisfaction.

Leadership style is a critical factor influencing employees' perceptions of the workplace environment and their level of job satisfaction. Leaders who communicate effectively, provide support, and recognize employee achievements create a positive work atmosphere that fosters employee satisfaction. Employees who experience supportive leadership tend to feel more respected and motivated, leading to greater satisfaction with their jobs. Research has consistently found that effective leadership significantly improves employee job satisfaction through trust-building and positive leader–employee relationships (Braun et al., 2013; Belias & Koustelios, 2014). Therefore, leadership style is expected to positively affect job satisfaction.

H4: Leadership Style has a positive and significant effect on job satisfaction**.**

Job Satisfaction on employee performance.

Job satisfaction is closely associated with employee performance because satisfied employees are generally more motivated, committed, and productive. Employees who enjoy their work and feel fulfilled by their jobs are more likely to invest additional effort in achieving organizational objectives. Moreover, job satisfaction encourages employees to maintain positive work behaviors and reduce absenteeism. Previous empirical studies have demonstrated that higher levels of job satisfaction significantly contribute to improved employee performance across different organizational contexts (Judge et al., 2001; Bakotić, 2016). Therefore, job satisfaction is expected to positively influence employee performance.

H5: Job Satisfaction has a positive and significant effect on employee performance.

Job Satisfaction mediates the relationship between compensation and employee performance.

Compensation may influence employee performance indirectly through job satisfaction. Employees who receive fair and competitive compensation are more likely to experience job satisfaction, which subsequently motivates them to perform better. In this context, job satisfaction serves as an important psychological mechanism linking compensation to performance outcomes. Research has shown that compensation enhances employee satisfaction, which in turn contributes to higher productivity and work effectiveness (Taba, 2018; Iqbal et al., 2013). Therefore, job satisfaction is expected to mediate the relationship between compensation and employee performance.

H6: Job Satisfaction mediates the positive relationship between compensation and employee performance.

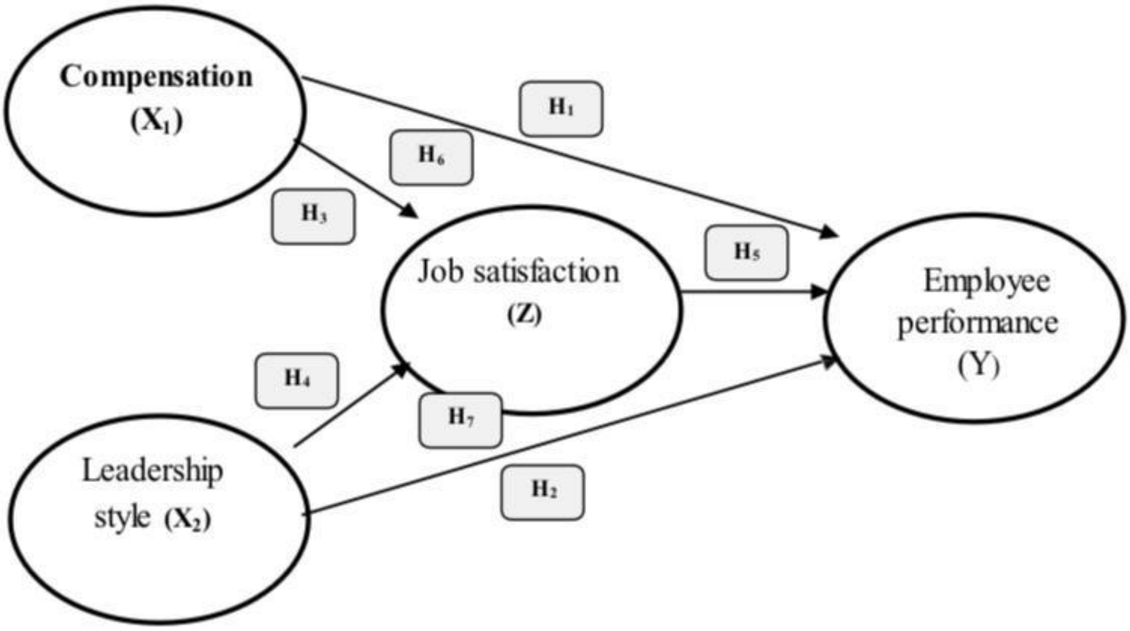
Job Satisfaction mediates the relationship between leadership style and employee performance.

Leadership style may improve employee performance indirectly by increasing job satisfaction. Leaders who provide support, empowerment, and recognition create a work environment that enhances employee satisfaction. Satisfied employees are more likely to demonstrate commitment, engagement, and higher levels of performance. Previous studies have found that job satisfaction acts as a significant mediating variable between leadership style and employee performance, suggesting that effective leadership improves performance through enhanced employee satisfaction (Braun et al., 2013; Eliyana et al., 2019). Therefore, job satisfaction is expected to mediate the relationship between leadership style and employee performance.

H7: Job Satisfaction mediates the positive relationship between leadership style and employee performance.

Based on hypothesis above, the following research framework is developed.

Figure 1: Research framework *Source:*



METHODS

This study employed a quantitative research design using a survey approach to examine the relationships among compensation, leadership style, job satisfaction, and employee performance at the Public Works and Spatial Planning Agency of Mentawai Islands Regency. The study aimed to analyze both the direct and indirect effects of compensation and leadership style on employee performance, with job satisfaction serving as an intervening variable. The target population consisted of all employees working in the agency, including civil servants and government employees under work agreements. A quantitative approach was considered appropriate because it enables the objective measurement of variables and the testing of causal relationships among constructs.

Data were collected through a structured questionnaire distributed to employees of the agency. The questionnaire was designed to measure four research variables: compensation, leadership style, job satisfaction, and employee performance. Compensation was assessed through indicators related to financial and non-financial rewards, while leadership style was measured based on employees' perceptions of their leaders' behaviors and managerial practices. Job satisfaction reflected employees' overall feelings toward their work, whereas employee performance was evaluated through indicators such as work quality, productivity, responsibility, and timeliness. In addition to primary data, secondary data were obtained from organizational documents and reports to support the analysis.

The collected data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. This analytical technique was selected because it is suitable for examining complex relationships among multiple latent variables and testing mediation effects simultaneously. The analysis process involved evaluating the measurement model through validity and reliability tests, followed by assessing the structural model to examine the proposed hypotheses. Furthermore, mediation analysis was conducted to determine the role of job satisfaction in mediating the relationships between compensation, leadership style, and employee performance. This method enabled a comprehensive assessment of both direct and indirect effects among the study variables.

RESULTS AND DISCUSSION

Results

Convergent validity can be evaluated through four (4) parts, namely outer loading > 0.7; Cronbach's alpha > 0.7; composite reliability > 0.7; average variance extracted (AVE) > 0.5. While discriminant validity uses the Fornell-Larcker criterion, cross loading, and HTMT methods.

Table 1. Outer Loading

	Leaderhip Style (X2)	Job Satisfaction (Z)	Employee Performance (Y)	Compensation (X1)
LS1	0,768			
LS10	0,743			
LS4	0,740			
LS6	0,737			
LS7	0,798			
LS8	0,768			
LS9	0,785			
JS10		0,799		
JS4		0,848		
JS6		0,782		
JS7		0,833		
JS8		0,799		
JS9		0,810		
EP1			0,811	
EP2			0,790	
EP3			0,902	
EP4			0,809	
EP6			0,828	
EP8			0,898	
COM1				0,813
COM3				0,709
COM4				0,705
COM6				0,775
COM7				0,793
COM8				0,817
COM9				0,785

Source: Processed data (2025)

Description:

LS : Leadership Style

JS : Job Satisfaction

EP : Employee Performance

COM : Compensation

Based on table 1. Outer Loading, it can be seen that all statement items used to measure the variables of leadership style, job satisfaction, employee performance, compensation are valid because all statement items used have outer loadings above 0.7. After analyzing the outer loadings, the results of the Cronbach's alpha, composite reliability, and average extracted variance (AVE) analysis can be seen as follows:

Table 2. Cronbach's Alpha, Composite Reliability, dan AVE

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Leadership Style(X2)	**0,880**	**0,907**	**0,582**
Job Satisfaction (Z)	**0,897**	**0.921**	**0,660**
Employee Performance (Y)	**0,916**	**0,935**	**0,707**
Compensation (X1)	**0,887**	**0,912**	**0,596**

Source: Processed data (2025)

Based on Table 2, it can be seen that all variables have Cronbach's alpha> 0.7, composite reliability> 0.7 and AVE> 0.5 or have met the specified conditions (Hair et al., 2014). Furthermore, the results of the discriminate validity analysis with the Fornell -Larcker criterion methods can be seen as follows:

Table 3.Results of Discriminant Validity Analysis with the Fornell-Lacker Criterion Method

	Leadership Style	Job Satisfaction	Employee Performance	Compensation
Leadership Style (X2)	**0,763**			
Job Satisfaction (Z)	**0,938**	**0,812**		
Employee Performance (Y)	**0,803**	**0,766**	**0,841**	
Compensation (X1)	**0,724**	**0,671**	**0,930**	**0,772**

Source: Processed data (2025)

Based on Table 3, discriminant validity testing using the Fornell-Larcker Criterion shows that the square root of the Average Variance Extracted (AVE) for each variable is greater than the correlation value between the other variables. This indicates that each construct in the research model has a good level of discriminant validity.

The next step, R square (R2) is used to measure how much endogenous variables are influenced by other variables (exogenous). The results of the R square analysis can be seen as follows:

Table 4.Analysis Results R square (R2)

	R Square
Job Satisfaction	0,880
Employee Performance	0,904

Source: Processed data (2025)

Based on Table 4, the R-square value for the job satisfaction variable (Z) is 0.880, meaning that 88.0% of the variation in job satisfaction is explained by exogenous variables in the research model, while the remainder is explained by variables outside the model. Furthermore, the R-square value for the employee performance variable (Y) is 0.904, meaning that 90.4% of the variation in employee performance can be explained by exogenous variables in the research model, while the remainder is influenced by variables outside the model. This value also falls into the strong category (Hair et al., 2017).

Q square is used to assess how well the model can predict the observed value and parameter estimates of endogenous variables. The results of the Q square analysis can be seen as follow:

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

Table 5. Q square analysis results (Q2)

	Q Square
Job Satisfaction	0,570
Employee Performance	0,629

Source: Processed data (2025)

Based on Table 5, the Q Square value for the job satisfaction variable was 0.570, indicating that the model has strong predictive ability in predicting job satisfaction. Furthermore, the Q Square value for the employee performance variable was 0.629, indicating that the model has strong predictive ability in predicting employee performance. This is in accordance with the Q Square criteria, where a value above 0.35 indicates strong predictive ability (Hair et al., 2017).

Structural Model Assessment (SMA) is a structural model for predicting causal relationships between latent variables. SMA testing uses a bootstrapping procedure.

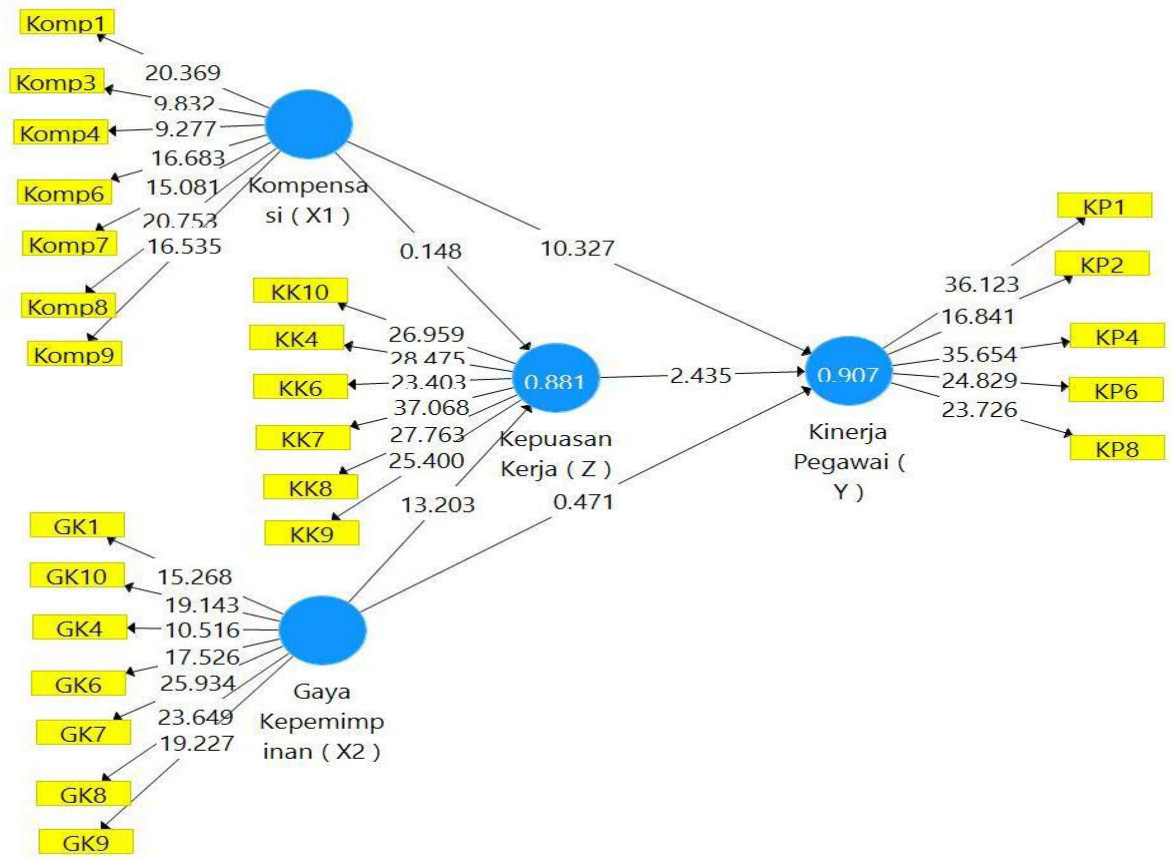


Figure 1. Structural Model Assessment

Table 6. Analysis Results Structural Model Assessment

	Original Sample	T Statistics	P Values	Conclusion
Compensation(X1) -> Employee Performance (Y)	0,709	10,327	0,000	H1 Accepted
Leadership Style (X2) -> Employee Performance (Y)	0,038	0,471	0,638	H2 Rejected
Compensation (X1) -> Job Satisfaction(Z)	-0,015	0,148	0,882	H3 Rejected
Leadership Style (X2) -> Job Satisfaction (Z)	0,949	13,203	0,000	H4 Accepted
Job Satisfaction (Z) -> Employee Performance	0,278	2,435	0,015	H5 Accepted

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

(Y)				
Compensation (X1) -> Job Satisfaction (Z) -> Employee Performance (Y)	-0,004	0,135	0,893	H6 Rejected
Leadership Style (X2) -> Job Satisfaction (Z) -> Employee Performance (Y)	0,264	2,550	0,011	H7 Accepted

Source: Processed data (2025)

Based on table 6, it can be interpreted as follows:

1. The effect of compensation on employee performance has an original sample of 0.709 (positive sign), T-statistic of 10.327 (greater than 1.96), and P-value of 0.000 (less than 0.05). Therefore, it can be concluded that compensation has a positive and significant effect on employee performance (H1 is accepted).
2. The effect of leadership style on employee performance has an original sample of 0.038 (positive sign), T-statistic of 0.471 (less than 1.96), and P-value of 0.638 (greater than 0.05). Therefore, it can be concluded that leadership style does not have a significant effect on employee performance (H2 is rejected).
3. The effect of compensation on job satisfaction has an original sample of -0.015 (negative sign), T-statistic of 0.148 (less than 1.96), and P-value of 0.882 (greater than 0.05). Therefore, it can be concluded that compensation does not have a significant effect on job satisfaction (H3 is rejected)
4. The effect of leadership style on job satisfaction has an original sample of 0.949 (positive sign), T-statistic of 13.203 (greater than 1.96), and P-value of 0.000 (less than 0.05). Therefore, it can be concluded that leadership style has a positive and significant effect on job satisfaction (H4 is accepted).
5. The effect of job satisfaction on employee performance has an original sample of 0.278 (positive sign), T-statistic of 2.435 (greater than 1.96), and aP-value of 0.015 (less than 0.05). Therefore, it can be concluded that job satisfaction has a positive and significant effect on employee performance (H5 is accepted).
6. The indirect effect of compensation on employee performance through job satisfaction has an original sample of -0.004 (negative sign), T-statistic of 0.135 (less than 1.96), and P-value of 0.893 (greater than 0.05). Therefore, it can be concluded that job satisfaction does not mediate the relationship between compensation and employee performance (H6 is rejected).
7. The indirect effect of leadership style on employee performance through job satisfaction has an original sample of 0.264 (positive sign), T-statistic of 2.550 (greater than 1.96), and P-value of 0.011 (less than 0.05). Therefore, it can be concluded that job satisfaction significantly mediates the relationship between leadership style and employee performance (H7 is accepted).

DISCUSSION

The results of hypothesis testing (H1) indicate that compensation has a positive and significant effect on employee performance. This finding suggests that employees who perceive the compensation they receive as fair and appropriate are more likely to exhibit higher levels of motivation, commitment, and productivity in carrying out their responsibilities. Adequate compensation not only fulfills employees' economic needs but also serves as a form of organizational recognition for their contributions, thereby encouraging them to achieve better work outcomes. When employees feel valued through equitable compensation practices, they tend to demonstrate stronger engagement and dedication to organizational objectives. This finding is consistent with previous studies, which have reported that compensation is a critical factor influencing employee performance because it enhances employee motivation and encourages greater effort in completing assigned tasks (Idris et al., 2020; Azmy, 2022; Nurpribadi et al., 2024).

The results of hypothesis testing (H2) indicate that leadership style does not have a significant effect on employee performance. This finding suggests that employee performance is influenced not only by leadership but also by other factors, such as work motivation, organizational systems, and workplace culture. Therefore, the leadership style implemented within the organization has not been able to directly improve employee performance. This result is consistent with the findings of Mohamud et al. (2024), who reported that certain leadership styles do not significantly influence employee performance and that the relationship between leadership and performance depends on the organizational context.

The results of hypothesis testing (H3**)** indicate that compensation does not have a significant effect on job satisfaction. This finding suggests that employee job satisfaction is influenced not only by financial rewards but also by non-financial factors, such as the work environment, relationships with supervisors and colleagues, and career development opportunities. Therefore, compensation is not the primary determinant of job satisfaction among employees. This finding is consistent with the study of Idris et al. (2020), which reported that compensation does not significantly influence employee job satisfaction.

The results of hypothesis testing (H4) indicate that leadership style has a positive and significant effect on job satisfaction. This finding suggests that leaders who provide clear direction, maintain open communication, and show concern for employees' needs can create a supportive work environment that enhances job satisfaction. Effective leadership also strengthens trust between supervisors and subordinates, increases motivation, and fosters positive workplace relationships. This result is consistent with previous studies, which found that supportive and communicative leadership styles contribute significantly to employee job satisfaction (Idris et al., 2020; Khan et al., 2022; Mohamud et al., 2024).

The results of hypothesis testing (H5**)** indicate that job satisfaction has a positive and significant effect on employee performance. This finding suggests that employees who are satisfied with their jobs tend to demonstrate higher motivation, commitment, and responsibility in carrying out their duties, which ultimately enhances their performance. Satisfied employees are more likely to contribute effectively to organizational goals and maintain a high level of productivity. This result is consistent with previous studies, which found that job satisfaction plays an important role in improving employee performance and serves as a significant factor linking managerial practices to performance outcomes (Idris et al., 2020; Biloa, 2023; Mohamud et al., 2024).

The results of hypothesis testing (H6**)** indicate that job satisfaction does not mediate the relationship between compensation and employee performance. Although compensation is theoretically expected to enhance employee satisfaction and subsequently improve performance, the findings suggest that this indirect relationship is not supported. This result implies that compensation alone may not be sufficient to increase employee performance through job satisfaction, as other organizational and individual factors may play a more important role. The finding is consistent with the study of Idris et al. (2020), which reported that job satisfaction was unable to mediate the relationship between compensation and employee performance.

The results of hypothesis testing (H7) indicate that job satisfaction significantly mediates the relationship between leadership style and employee performance. This finding suggests that an effective leadership style can enhance employee job satisfaction, which subsequently contributes to improved employee performance. Leaders who foster supportive communication, participation, and positive workplace relationships are more likely to increase employees' satisfaction and encourage better work outcomes. This result is consistent with previous studies, which found that job satisfaction serves as an important mediating variable linking leadership style to employee performance (Idris et al., 2020; Khan et al., 2022; Mohamud et al., 2024; Hakim & Ramadhani, 2025).

CONCLUSION

The findings of this study reveal that compensation has a positive and significant direct effect on employee performance, indicating that a fair and appropriate compensation system plays an important role in enhancing employees' work outcomes. In contrast, leadership style does not directly influence employee performance but has a positive and significant effect on job satisfaction. Furthermore, compensation does not significantly affect job satisfaction, suggesting that employee satisfaction is shaped by factors beyond financial rewards. The results also demonstrate that job satisfaction positively contributes to employee performance. Regarding the mediating relationships, job satisfaction does not mediate the effect of compensation on employee performance, indicating that compensation influences performance directly. However, job satisfaction fully mediates the relationship between leadership style and employee performance, implying that leadership improves performance primarily by enhancing employees' satisfaction with their work. Overall, the study highlights that employee performance within the Public Works and Spatial Planning Agency of Mentawai Islands Regency is driven by both effective compensation practices and leadership behaviors that foster higher levels of job satisfaction.

Implications

The findings of this study provide important practical and theoretical implications for human resource management in the public sector. Practically, the results suggest that organizations should establish fair and performance-based compensation systems to enhance employee performance, while also fostering leadership practices that promote employee satisfaction through effective communication, support, and motivation. Improving job satisfaction is essential, as it contributes significantly to higher employee performance and overall organizational effectiveness. Theoretically, this study enriches the literature on human resource management by demonstrating the distinct roles of compensation, leadership style, and job satisfaction in shaping employee performance. The findings support motivation and equity theories by confirming the importance of fair compensation in improving performance and highlight the critical mediating role of job satisfaction in the relationship between leadership style and employee performance. Therefore, this study contributes to a deeper understanding of how organizational and psychological factors interact to influence employee performance within public sector institutions.

Limitation And Future Research

This study has several limitations that should be considered when interpreting the findings. First, the research was conducted within a single public-sector organization, namely the Public Works and Spatial Planning Agency of Mentawai Islands Regency, which may limit the generalizability of the results to other governmental institutions with different organizational characteristics and management systems. Second, the study focused only on compensation, leadership style, and job satisfaction as determinants of employee performance. Employee performance in public organizations may also be influenced by other factors, such as work motivation, organizational culture, organizational commitment, work environment, and performance evaluation systems. In addition, the data were collected through self-reported questionnaires, which may be subject to response bias and subjective perceptions.

Future studies are encouraged to expand the research setting by including multiple public-sector organizations to enhance the external validity of the findings. Researchers may also develop a more comprehensive model by incorporating additional organizational and behavioral variables that influence employee performance. Furthermore, the use of mixed-method approaches, combining quantitative surveys with interviews or observations, could provide a deeper understanding of employee behavior and organizational dynamics. Future research may also employ objective performance indicators and apply alternative analytical techniques, such as covariance-based Structural Equation Modeling (CB-SEM), to validate and compare the findings. Expanding the study across multiple government agencies and regions would enhance the external validity and broader applicability of the findings. Additionally, employing longitudinal designs and examining specific leadership styles would provide deeper insights into their effects on job satisfaction and employee performance over time.

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ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

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