Determination of Employee Performance in Modern Organizations

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Abstract

This study aims to analyze the effect of compensation and adaptive leadership on employee performance through employee engagement at PT PLN (Persero) ULP Lima Puluh. This research adopts a quantitative approach using a survey method. The research sample consists of 78 employees selected using a saturated sampling technique. Data analysis was conducted using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The results indicate that compensation and adaptive leadership have a positive and significant effect on employee engagement. Furthermore, compensation, adaptive leadership, and employee engagement also have a positive and significant effect on employee performance. Employee engagement is proven to mediate the relationship between compensation and adaptive leadership on employee performance. Therefore, improving a fair compensation system and implementing effective adaptive leadership can enhance employee engagement and ultimately improve employee performance at PT PLN (Persero) ULP Lima Puluh.

Keywords: Compensation, Adaptive Leadership, Employee Engagement, Employee Performance.

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2nd International Conference on Islamic Community Studies (ICICS)
Theme: History of Malay Civilisation and Islamic Human Capacity and Halal Hub in the Globalization Era
https://proceeding.pancabudi.ac.id/index.php/ICIE/index

Introduction

Employees with high performance are capable of providing fast, accurate, and quality service to customers. However, in reality, various institutions still experience performance fluctuations evident from delays in task completion, a lack of innovation in services, and low work morale among some employees. Internal factors such as compensation, leadership style, and employee engagement with their work play important roles in shaping individual and team performance. One factor receiving considerable attention is compensation. Compensation is a form of reward given by an organization to employees for their contributions and performance. Adequate and fair compensation can create a sense of satisfaction and increase employee work motivation. However, there are still complaints in the field regarding mismatches between workload, responsibilities, and the received compensation system. Such imbalances can lower work morale, reduce loyalty, and negatively impact employee performance. Besides compensation, adaptive leadership also plays a strategic role in maintaining and improving employee performance. Adaptive leadership is the ability of a leader to adjust their leadership style to changing situations, make decisions flexibly, and motivate subordinates to face new challenges. Leaders are expected not only to direct but also to facilitate, empowering their team, listening to aspirations, and mobilizing employees to continuously learn and innovate. Adaptive leaders are crucial in creating a positive work climate, supporting open communication, and increasing employee engagement with organizational goals. However, the relationship between compensation and adaptive leadership on employee performance is often not direct. The factor of employee engagement or work involvement plays an important mediating role bridging that relationship. Employee engagement describes the extent to which employees feel emotionally, cognitively, and physically connected to their work and the organization where they work. Employees with high engagement levels will demonstrate enthusiasm, dedication, and commitment in carrying out their duties, even amidst work pressure or environmental changes. Conversely, low engagement levels can lead to decreased work morale, increased absenteeism, and reduced productivity.

However, various previous studies have shown different results regarding the relationships among these variables. The results of this study confirm that the higher the satisfaction with compensation and the better the leadership style, the stronger the employee engagement in improving performance. Conversely, research by Sari and Nugroho (2020) found that compensation did not have a significant effect on employee performance through employee engagement, while leadership had a positive but not significant influence. Job characteristics demanding high responsibility, significant work risks, and rapid operational system changes make it important to understand how compensation and leadership can simultaneously affect employee engagement and employee performance in such a specific work environment. Lack of initiative in completing work, low collaboration among employees, and the perception that recognition and support from superiors are not yet fully equitable. Internal policy changes, the implementation of new technologies, and efficiency demands require every employee to be able to adapt and still deliver optimal work results.

Problem Formulation

1. Does Compensation have a positive and significant effect on Employee Performance at PT PLN (Persero) ULP Lima Puluh?
2. Does Adaptive Leadership have a positive and significant effect on Employee Performance at PT PLN (Persero) ULP Lima Puluh?
3. Does Compensation have a positive and significant effect on Employee Engagement at PT PLN (Persero) ULP Lima Puluh
4. Does Adaptive Leadership have a positive and significant effect on Employee Engagement at PT PLN (Persero) ULP Lima Puluh?
5. Does Employee Engagement have a positive and significant effect on Employee Performance at PT PLN (Persero) ULP Lima Puluh?

6. Does Compensation have a positive and significant effect on Employee Performance through Employee Engagement at PT PLN (Persero) ULP Lima Puluh?
7. Does Adaptive Leadership have a positive and significant effect on Employee Performance through Employee Engagement at PT PLN (Persero) ULP Lima Puluh?

Research Objectives

1. To test and analyze the effect of Compensation on Employee Performance at PT PLN (Persero) ULP Lima Puluh.
2. To test and analyze the effect of Adaptive Leadership on Employee Performance at PT PLN (Persero) ULP Lima Puluh.
3. To test and analyze the effect of Compensation on Employee Engagement at PT PLN (Persero) ULP Lima Puluh.
4. To test and analyze the effect of Adaptive Leadership on Employee Engagement at PT PLN (Persero) ULP Lima Puluh.
5. To test and analyze the effect of Employee Engagement on Employee Performance through Employee Engagement at PT PLN (Persero) ULP Lima Puluh.
6. To test and analyze the effect of Compensation on Employee Performance through Employee Engagement at PT PLN (Persero) ULP Lima Puluh.
7. To test and analyze the effect of Adaptive Leadership on Employee Performance through Employee Engagement at PT PLN (Persero) ULP Lima Puluh.

Employee Performance

According to Hasibuan (2020), Employee performance encompasses the quality and quantity of work results achieved by employees in carrying out their tasks and responsibilities in accordance with organizational goals. According to Sedarmayanti (2019), Employee performance is the work results achieved by an employee in carrying out their tasks and responsibilities according to standards set by the organization.

Indicators of Employee Performance

Indicators of Employee Performance according to Sedarmayanti (2019) are as follows:

1. Work productivity
2. Quality of work results
3. Compliance with time and procedures
4. Ability to work in a team

Factors Influencing Employee Performance

According to Sedarmayanti (2019), factors influencing employee performance include:

1. Ability – knowledge and skills in working.
2. Motivation – drive to achieve optimal work results.
3. Work environment – physical and social conditions of the workplace.
4. Leadership – how leaders direct and motivate employees.
5. Compensation – financial and non-financial rewards.
6. Work discipline – compliance with organizational rules.
7. Organizational culture – values and norms influencing work behavior.

Compensation

According to Mujanah (2019), Compensation is a financial or non-financial reward given to employees for their contributions and services provided to the company. According to Wibowo (2019), Compensation is the total package offered by an organization to workers as compensation for the use of their labor.

Indicators of Compensation

Indicators according to Mujanah (2019) for Compensation are as follows:

1. Base salary and fixed allowances
2. Bonuses and incentives
3. Health facilities and insurance
4. Employee welfare programs

Adaptive Leadership

According to Leonardus Kelvin (2018), adaptive leadership is a leadership style capable of responding to the challenges of change because adaptive leaders provide space for followers to participate and be responsible for organizational goals. According to Heifetz, Grashow, and Linsky (2017), adaptive leadership is the practice of mobilizing people to tackle tough challenges and thrive in rapidly changing situations.

Indicators of Adaptive Leadership

According to Leonardus Kelvin (2018), indicators of adaptive leadership include:

1. Ability to face change, namely the leader's readiness to adapt to organizational environmental dynamics.
2. Empowerment of organizational members, by providing space for participation and shared responsibility.
3. Building collaboration and equality, through open working relationships between leaders and subordinates.
4. Managing conflict and uncertainty, by treating differences of opinion as learning opportunities.
5. Encouraging learning and innovation, which is fostering a learning culture so that the organization can adapt continuously.

Employee Engagement

According to Shuck (2019), Employee engagement is the positive, enthusiastic, and energetic involvement of employees in their work, reflecting commitment and dedication to the organization. According to Kartono (2017), Employee engagement is a condition, attitude, or positive behavior of an employee towards their work and organization characterized by feelings of vigor, dedication, and absorption in achieving organizational goals and success.

Employee Engagement Indicators

Indicators of Employee Engagement according to Shuck (2019) are as follows:

1. Emotional involvement in work
2. Commitment to organizational goals
3. Initiative and proactivity in tasks
4. Satisfaction and pride in work

Conceptual Framework

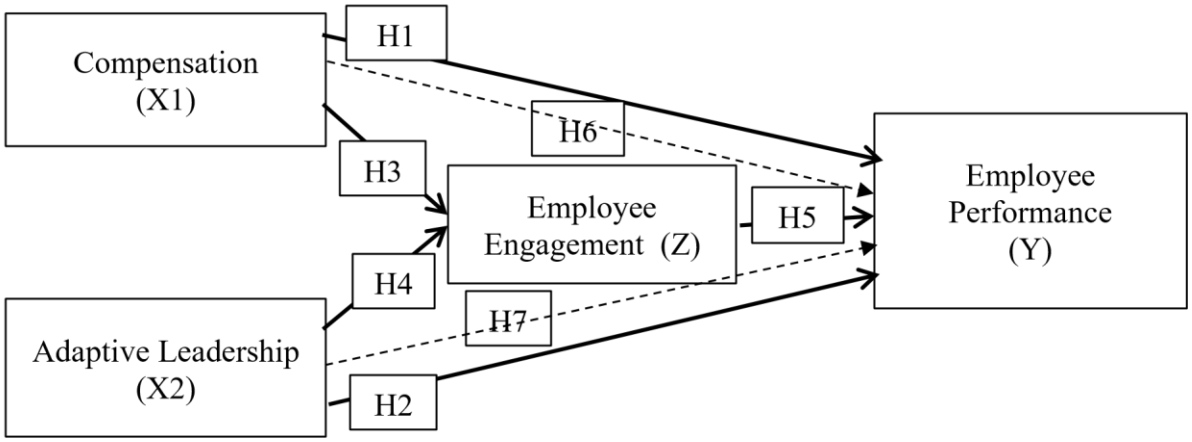

Figure 1. Conceptual Framework

Hypotheses

H1 Employee Compensation has a positive and significant effect on Employee Performance at PT PLN (Persero) ULP Lima Puluh.

H2 Adaptive Leadership has a positive and significant effect on Employee Performance at PT PLN (Persero) ULP Lima Puluh.

H3 Employee Engagement has a positive and significant effect on Employee Engagement at PT PLN (Persero) ULP Lima Puluh. (Note: This appears to be a typo in the original; likely meant "Compensation has a positive and significant effect on Employee Engagement") H4 Compensation has a positive and significant effect on Employee Engagement at PT PLN (Persero) ULP Lima Puluh.

H5 Employee Engagement has a positive and significant effect on Employee Performance at PT PLN (Persero) ULP Lima Puluh.

H6 Compensation has a positive and significant effect on Employee Performance through Employee Engagement at PT PLN (Persero) ULP Lima Puluh.

H7 Adaptive Leadership has a positive and significant effect on Employee Performance through Employee Engagement at PT PLN (Persero) ULP Lima Puluh.

Research Methodology

According to Sugiyono (2019), quantitative research is based on positivist philosophy and is used to research specific populations or samples, with data collection using research instruments and quantitative/statistical data analysis.

Research Location and Time

PT PLN (Persero) ULP Lima Puluh, Jalan Raya No. 50, Kecamatan Lima Puluh, Kabupaten Batubara, Sumatera Utara Jl. Perintis Kemerdekaan, Lima Puluh Kota, Kecamatan. Lima Puluh, Kabupaten Batu Bara, Sumatera Utara 21255. Time: The research was conducted for 3 months, from November to December 2025.

Population and Sample

The research population is all active employees of PT PLN (Persero) ULP Lima Puluh in 2025, amounting to 100 employees. Sugiyono (2019) states that a population is a generalization area consisting of objects or subjects that have certain characteristics determined by the researcher. The sample in this study is the entire population, namely 100 employees, using a saturated sampling technique. According to Sugiyono (2019), the saturated sampling technique (census sampling / total sampling) is a sampling technique where all members of the population are made the sample because the population is relatively small or the entire population is indeed intended to be the research object.

Data Analysis Technique

Data analysis in this study uses Partial Least Square Structural Equation Modeling (PLSSEM) via SmartPLS 3.3.3 software. SmartPLS was chosen because it can test relationships between latent variables measured by several indicators simultaneously, including mediation variable testing. According to Hair et al. (2019), PLS-SEM is suitable for exploratory research, data with non-normal distribution, and relatively small to moderate sample sizes. SmartPLS distinguishes analysis into two parts, namely the outer model (measurement model) and the inner model (structural model). The outer model functions to assess the validity and reliability of indicators towards latent variables, while the inner model focuses on relationships between latent variables and hypothesis testing.

Outer Model

The outer model or measurement model is used to ensure that each indicator used truly represents the variable being measured. In this study, all variables use reflective indicators, so each indicator is expected to directly reflect the latent variable. Indicator validity is tested using convergent validity, where a loading factor value of at least 0.70 indicates that the indicator is valid. Additionally, discriminant validity is tested to ensure each indicator differs from indicators of other variables, while the reliability of latent variables is tested using composite reliability, where a minimum value of 0.70 indicates a reliable instrument (Hair et al., 2019).

Inner Model

The inner model or structural model functions to assess causal relationships between variables. In this study, the inner model is used to determine the direct influence of compensation and leadership on employee engagement, as well as the influence of employee engagement on employee performance. Furthermore, this model allows for the analysis of the mediating effect of employee engagement on the relationship between compensation and leadership with employee performance. Evaluation of the inner model is done through the R^2 value, which indicates how much the independent variables explain the dependent variable, and the path coefficient which shows the direction and strength of the relationship between variables. Path significance is tested via the bootstrapping method, where a t-statistic value greater than 1.96 at a 5% significance level indicates a significant relationship (Hair et al., 2019).

Hypothesis Testing

Hypothesis testing is conducted descriptively via SmartPLS using the bootstrapping procedure. This test allows the researcher to determine whether compensation and leadership have a significant effect on employee performance, both directly and through the mediation of employee engagement.

Results and Discussion

Assessing the Outer Model or Measurement Model. To determine the level of accuracy of the indicators in explaining the exogenous construct under development as indicated by the loading factor. For questions at the initial development stage, reflective measures are said to be related if they are more than 0.6, and the measured development is considered adequate (Ghozali 2016). Figure 2 shows the structure:

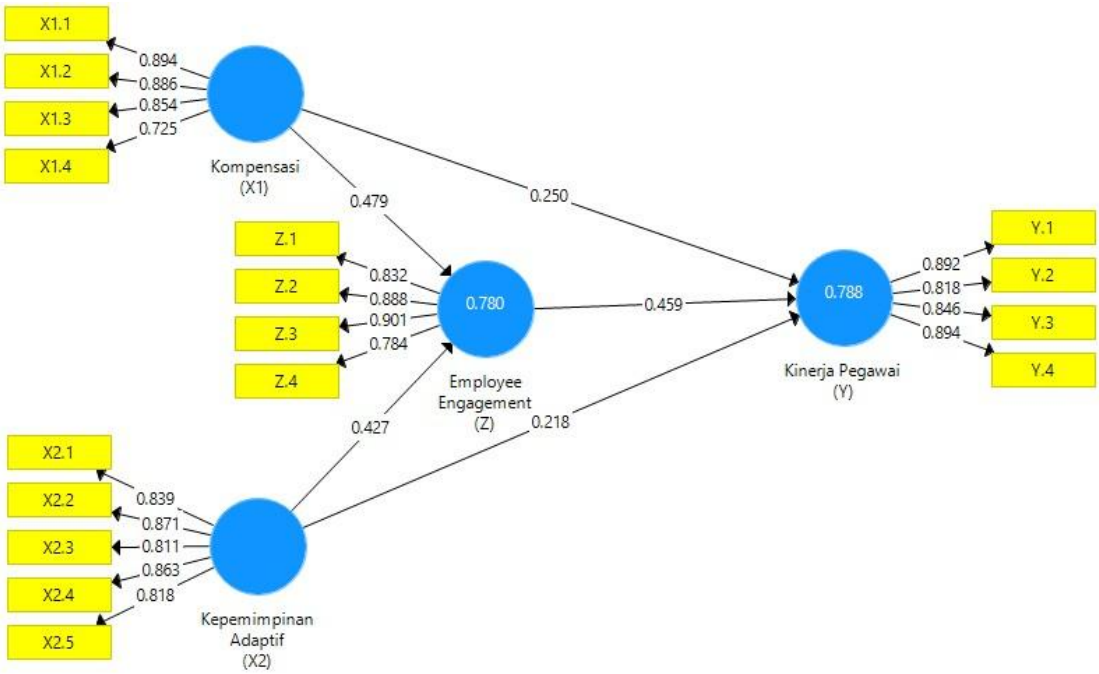

Figure 2. Outer Model

Source : Smart PLS 3.3..3

The Smart PLS output for loading factor provides the results in the following table: Outer Loadings. In this study, there are equations, and they consist of two substructures. For substructure 1:

Z = b1X1 + b2X2 + e1

Z = 0,479 + 0,427 + e

For substructure 2:

Y = b2X1 + b3X2 + b4Z + e2

Y = 0,250 + 0,218 + 0,459

Table 1. Outer Loadings

	Employee Engagement_(Z)	Adaptive Leadership_(X2)	Employee Performance _(Y)	Compensation_(X1)
X1.1				**0,894**
X1.2				**0,886**
X1.3				**0,854**
X1.4				**0,725**
X2.1		**0,839**		
X2.2		**0,871**		
X2.3		**0,811**		
X2.4		**0,863**		
X2.5		**0,818**		
Y.1			**0,892**	
Y.2			**0,818**	
Y.3			**0,846**	
Y.4			**0,894**	

Z.1	**0,832**			
Z.2	**0,888**			
Z.3	**0,901**			
Z.4	**0,784**			

Source : Smart PLS 3.3..3

The Outer Loadings table shows that all indicators are able to represent the latent variables well and meet the convergent validity criteria, so all indicators are declared valid and suitable for use in the research model.

Discriminant Validity

To use this discriminant validity evaluation method, the score must be at least greater than 0.7. The following table presents the findings of the cross-loading analysis for discriminant validity:

Table 2. Discriminant Validity

	Employee Engagement_(Z)	**Adaptive Leadership_(X2)**	**Employee Performance _(Y)**	**Compensation_(X1)**
X1.1	0,759	0,813	0,719	0,894
X1.2	0,778	0,777	0,809	0,886
X1.3	0,743	0,746	0,702	0,854
X1.4	0,616	0,690	0,588	0,725
X2.1	0,694	0,839	0,654	0,751
X2.2	0,758	0,871	0,752	0,812
X2.3	0,729	0,811	0,723	0,715
X2.4	0,713	0,863	0,714	0,782
X2.5	0,709	0,818	0,667	0,713
Y.1	0,778	0,701	0,892	0,761
Y.2	0,811	0,774	0,818	0,747
Y.3	0,704	0,731	0,846	0,727
Y.4	0,662	0,668	0,894	0,657
Z.1	0,832	0,780	0,736	0,765
Z.2	0,888	0,761	0,755	0,723
Z.3	0,901	0,743	0,747	0,740
Z.4	0,784	0,634	0,697	0,714

Source : Smart PLS 3.3..3

Composite Reliability

Table 2 Discriminant Validity shows that each indicator has met the discriminant validity criteria, thus being able to differentiate the measured concepts well in the research model.

Table 3. Compsite Reliability

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Employee Engagement_(Z)	**0,873**	**0,914**	**0,727**
Adaptive Leadership_(X2)	**0,896**	**0,923**	**0,707**
Employee Performance _(Y)	**0,886**	**0,921**	**0,745**
Compensation_(X1)	**0,861**	**0,907**	**0,710**

Source : Smart PLS 3.3..3

Table 3 Composite Reliability shows that all variables have Cronbach's Alpha and Composite Reliability values above 0.70 and AVE values above 0.50. Therefore, all variables have met the criteria for reliability and convergent validity, so the research instrument is declared reliable and suitable for use.

Inner Model Analysis Coefficient of Determination (R^2)

Based on R^2, a model can be classified as strong (≥ 0.70), moderate (≥ 0.45), and weak (≥ 0.25). The following are the R^2 results:

Table 4. R Square Results

	R Square	Adjusted R Square
Employee Engagement_(Z)	0,780	0,775
Employee Performance _(Y)	0,788	0,779

Source : Smart PLS 3.3..3

Table 4 R Square shows that the Employee Engagement variable has an R Square value of 0.780, meaning that 78.0% of its variation can be explained by the independent variables in the model. Meanwhile, Employee Performance has an R Square value of 0.788, indicating that 78.8% of the variation in employee performance can be explained by the research variables, while the remainder is influenced by other factors outside the model.

Hypothesis Verification

There must be a significant value in the prediction of the path coefficient between constructs. The jackknifing or bootstrapping technique can be used to determine the importance of the relationship. The calculated t-value is the final result, and is compared with the t-table. The estimated path coefficient is said to be significant if at the five percent significance level the calculated t-value is greater than the t-table (1.96). There are seven hypotheses that can be tested in this study. Below are the results of each test:

Table 5. Path Coefficients (Direct Effects)

	Original Sample (O)	T Statistics (| O/STDEV |)	P Values	Results
Employee Engagement_(Z) -> Employee Performance _(Y)	0,459	3,774	**0,000**	**Accepted**
Adaptive Leadership_(X2) -> Employee Engagement_(Z)	0,427	3,140	**0,001**	**Accepted**

Adaptive Leadership_(X2) -> Employee Performance _(Y)	0,218	1,699	**0,045**	**Accepted**
Compensation_(X1) -> Employee Engagement_(Z)	0,479	3,522	**0,000**	**Accepted**
Compensation_(X1) -> Employee Performance _(Y)	0,250	2,219	**0,013**	**Accepted**

Source : Smart PLS 3.3..3

1. Effect of Employee Engagement on Employee Performance
   Employee Engagement has a positive and significant effect on Employee Performance, indicated by a coefficient of 0.459 with a t-value of 3.774 and p-value of 0.000. Therefore, the hypothesis is accepted.
2. Effect of Adaptive Leadership on Employee Engagement
   Adaptive Leadership has a positive and significant effect on Employee Engagement with a coefficient of 0.427, t-value of 3.140, and p-value of 0.001. This result shows the hypothesis is accepted.
3. Effect of Adaptive Leadership on Employee Performance
   Adaptive Leadership has a positive and significant effect on Employee Performance, with a coefficient of 0.218, t-value of 1.699, and p-value of 0.045. Therefore, the hypothesis is accepted.
4. Effect of Compensation on Employee Engagement
   Compensation has a positive and significant effect on Employee Engagement, indicated by a coefficient of 0.479, t-value of 3.522, and p-value of 0.000. Therefore, the hypothesis is accepted.
5. Effect of Compensation on Employee Performance
   Compensation has a positive and significant effect on Employee Performance, with a coefficient of 0.250, t-value of 2.219, and p-value of 0.013. This result shows that the hypothesis is accepted.

Table 6. Path Coefficients (Indirect Effects)

	Original Sample (O)	**T Statistics (| O/STDEV |)**	**P Values**	**Results**
Adaptive Leadership_(X2) -> Employee Engagement_(Z) -> Employee Performance _(Y)	0,196	2,218	**0,013**	**Accepted**
Compensation_(X1) -> Employee Engagement_(Z) -> Employee Performance _(Y)	0,220	2,790	**0,003**	**Accepted**

Source : Smart PLS 3.3..3

6. Effect of Adaptive Leadership on Employee Performance through Employee Engagement
   Adaptive Leadership has a positive and significant effect on Employee Performance through Employee Engagement, with an indirect effect coefficient of 0.196, t-value of 2.218, and p-value of 0.013. This result shows that Employee Engagement is able to mediate the effect of Adaptive Leadership on Employee Performance, so the hypothesis is accepted.
7. Effect of Compensation on Employee Performance through Employee Engagement
   Compensation has a positive and significant effect on Employee Performance through

Employee Engagement, indicated by a coefficient of 0.220, t-value of 2.790, and p-value of 0.003. Therefore, Employee Engagement plays a role as a mediating variable, and the hypothesis is accepted.

Conclusion

1. Employee Engagement is proven to significantly increase Employee Performance, so the hypothesis is accepted.
2. Adaptive Leadership is able to significantly increase Employee Engagement, so the hypothesis is accepted.
3. Adaptive Leadership has a direct and significant effect on increasing Employee Performance, so the hypothesis is accepted.
4. Well-given Compensation is proven to increase Employee Engagement, so the hypothesis is accepted.
5. Compensation has a positive and significant effect on Employee Performance, so the hypothesis is accepted.
6. Employee Engagement is able to significantly mediate the effect of Adaptive Leadership on Employee Performance, so the hypothesis is accepted.
7. Employee Engagement is proven to significantly mediate the effect of Compensation on Employee Performance, so the hypothesis is accepted.

Suggestions

1. Organizational management is advised to increase Employee Engagement by creating a supportive work environment, open communication, and providing recognition for employee contributions.
2. Leaders are expected to implement adaptive leadership styles more flexibly, responsive to change, and able to understand employee needs so that performance can continue to improve.
3. The company needs to pay attention to a compensation system that is fair, competitive, and performance-based to encourage employee engagement and improve performance sustainably.
4. Organizations are advised to conduct regular evaluations of leadership and compensation policies to remain relevant to work dynamics and employee expectations.
5. Future researchers are suggested to add other variables such as work motivation, job satisfaction, or organizational culture to expand the research model and increase the explanatory power of employee performance.

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