The Role of Compensation in Mediating the Relationship Between Transformational Leadership and Job Satisfaction: Evidence from Indonesian Private Universities

Nurmiati[1*], Abd Rasyid Masri[2], Wahyudi[3], A Syathir Sofyan[4], Suriyanti Mangkona[5]
[1*,2,3,4]Universitas Islam Negeri Alauddin Makassar - Kampus II Samata-Gowa, Jl. H.M. Yasin Limpo No. 36, Kab. Gowa, Sulawesi Selatan, Indonesia
[5]Universitas Muslim Indonesia, Jl. Urip Sumoharjo KM.5, Kota Makassar, Sulawesi Selatan 90231, Indonesia

A R T I C L E I N F O

Email Correspondence :
nurmiati@uin-alauddin.ac.id

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A B S T R A C T

This study aims to examine the mediating role of compensation in the relationship between transformational leadership and job satisfaction within the context of private universities in Indonesia. A quantitative approach was employed using a cross-sectional survey design, with data collected from academic and administrative staff. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results indicate that transformational leadership has a significant positive effect on job satisfaction and compensation. Compensation is also found to significantly influence job satisfaction. Furthermore, the findings reveal that compensation partially mediates the relationship between transformational leadership and job satisfaction, suggesting that leadership influences employee satisfaction both directly and indirectly through reward systems. This study contributes to the literature by extending transformational leadership research through the inclusion of compensation as a mediating variable, particularly in the higher education context. Theoretically, this study makes a novel contribution by positioning compensation as a structural HRM mechanism rather than a psychological mediator through which transformational leadership shapes employee job satisfaction, an approach not previously examined in the higher education context. Practically, the findings suggest that university management should align leadership practices with fair and effective compensation systems to enhance employee satisfaction and organizational performance.

A B S T R A K

Studi ini bertujuan untuk meneliti peran mediasi kompensasi dalam hubungan antara kepemimpinan transformasional dan kepuasan kerja dalam konteks universitas swasta di Indonesia. Pendekatan kuantitatif digunakan dengan desain survei lintas sektoral, dengan data yang dikumpulkan dari staf akademik dan administrasi. Data dianalisis menggunakan Partial Least Squares Structural Equation Modeling (PLS-SEM). Hasil menunjukkan bahwa kepemimpinan transformasional memiliki pengaruh positif yang signifikan terhadap kepuasan kerja dan kompensasi. Kompensasi juga ditemukan berpengaruh signifikan terhadap kepuasan kerja. Lebih lanjut, temuan menunjukkan bahwa kompensasi memediasi sebagian hubungan antara kepemimpinan transformasional dan kepuasan kerja, menunjukkan bahwa kepemimpinan memengaruhi kepuasan karyawan baik secara langsung maupun tidak langsung melalui sistem penghargaan. Studi ini berkontribusi pada literatur dengan memperluas penelitian kepemimpinan transformasional melalui penyertaan kompensasi sebagai variabel mediasi, khususnya dalam konteks pendidikan tinggi. Secara teoritis, studi ini memberikan kontribusi baru dengan memposisikan kompensasi sebagai mekanisme struktural manajemen sumber daya manusia (SDM) dan bukan sebagai mediator psikologis yang melaluinya kepemimpinan transformasional membentuk kepuasan kerja karyawan, sebuah pendekatan yang belum pernah diteliti sebelumnya dalam konteks pendidikan tinggi.Secara praktis, temuan menunjukkan bahwa manajemen universitas harus menyelaraskan praktik kepemimpinan dengan sistem kompensasi yang adil dan efektif untuk meningkatkan kepuasan karyawan dan kinerja organisasi.

INTRODUCTION

In the contemporary knowledge-driven economy, leadership plays a pivotal role in shaping employee attitudes and organizational outcomes, particularly within higher education institutions. Among various leadership styles, transformational leadership has been consistently recognized as a critical determinant of job satisfaction due to its ability to inspire, motivate, and develop employees beyond transactional exchanges (Banks et al., 2016; Hoch et al., 2018). Transformational leadership, originally conceptualized by Bernard M. Bass, emphasizes idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, which collectively foster positive psychological and behavioral responses among employees (Bass, 1998; Bass & Avolio, 1994).

Job satisfaction, defined as an individual's overall evaluative judgment of their job experiences, remains a central construct in organizational behavior research due to its strong association with performance, organizational commitment, and turnover intention (Judge et al., 2001; Inceoglu et al., 2018). In the context of higher education, job satisfaction is particularly crucial, as academic staff play a strategic role in knowledge creation, teaching quality, and institutional competitiveness (Shin & Jung, 2014). Consequently, understanding the mechanisms through which leadership influences job satisfaction has become an important research agenda.

Recent studies in higher education have shown that leadership practices significantly influence the well-being, engagement, and job satisfaction of university employees. In many higher education institutions, academic and administrative staff face increasing pressures associated with teaching performance, research productivity, accreditation requirements, and institutional competitiveness. These challenges make leadership support and organizational reward systems increasingly important determinants of employee satisfaction and retention. Empirical evidence from Asian higher education contexts suggests that supportive leadership and fair employment practices contribute significantly to positive work attitudes and organizational commitment among university employees.

From a theoretical standpoint, the relationship between transformational leadership and job satisfaction can be explained through Social Exchange Theory (SET) (Blau, 1964), which posits that employees reciprocate favorable treatment from leaders with positive attitudes and behaviors. Transformational leaders foster high-quality relational exchanges characterized by trust, support, and recognition, which in turn enhance employees' perceived organizational support and job satisfaction (Eisenberger et al., 1986; Kurtessis et al., 2017). In addition, Self-Determination Theory (SDT) suggests that leadership behaviors that fulfill employees' psychological needs—autonomy, competence, and relatedness—can enhance intrinsic motivation and satisfaction (Deci et al., 2017).

Although prior studies have established a robust direct relationship between transformational leadership and job satisfaction, recent meta-analytical and empirical evidence suggests that this relationship is often mediated by organizational and psychological mechanisms rather than being purely direct (Hoch et al., 2018; Banks et al., 2016). This has led to an increasing scholarly interest in identifying mediating variables that can better explain how leadership translates into employee outcomes.

One important yet underexplored mechanism is compensation. Compensation is not only a financial reward but also a key organizational signal reflecting fairness, recognition, and value attribution (Gerhart & Fang, 2015; Milkovich et al., 2020). Drawing on Equity Theory (Adams, 1965), employees evaluate the fairness of compensation by comparing their inputs and outcomes relative to others. Perceived fairness in compensation has been shown to significantly enhance job satisfaction and organizational commitment (Colquitt et al., 2013; Jiang et al., 2017). Furthermore, Expectancy Theory (Vroom, 1964) suggests that employees are motivated when they perceive a clear linkage between effort, performance, and rewards, indicating that compensation can act as a mechanism through which leadership influences employee attitudes. Compensation refers to employees' perceptions of the fairness, adequacy, and value of compensation provided by the institution rather than the objective amount of financial rewards received. This conceptualization is consistent with Equity Theory, which emphasizes that employee attitudes are influenced primarily by perceived fairness of rewards rather than by absolute compensation levels.

In this study, compensation is explicitly defined as employees' perceptions of the fairness, adequacy, and meaningfulness of rewards received from the organization, encompassing both financial rewards (salary, allowances, and performance-based incentives) and non-financial rewards (recognition, professional development, and career advancement opportunities). This conceptualization is grounded in Equity Theory (Adams, 1965) and the total rewards framework (Milkovich et al., 2020), which emphasize that employee attitudes are shaped primarily by perceived reward fairness rather than by the objective level of compensation received.

Recent studies have begun to explore the interaction between leadership and compensation systems. For instance, research indicates that leadership behaviors can shape employees' perceptions of reward fairness and influence the effectiveness of compensation systems (Bamberger & Belogolovsky, 2017). Similarly, empirical findings suggest that compensation and leadership jointly affect job satisfaction and performance outcomes (Jiang et al., 2017). However, despite these developments, the role of compensation as a mediating variable in the relationship between transformational leadership and job satisfaction remains insufficiently examined.

Several critical research gaps can be identified in the existing literature. First, while numerous studies investigate psychological mediators such as engagement, motivation, and organizational commitment, limited research has explicitly positioned compensation as a mediating mechanism linking transformational leadership and job satisfaction. Second, most empirical studies are conducted in corporate or industrial settings, leaving a contextual gap in higher education institutions, particularly in developing countries where institutional dynamics differ significantly (Shin & Jung, 2014). Third, prior findings on the relationship between transformational leadership and job satisfaction are not always consistent, suggesting the presence of contextual and organizational contingencies that require further investigation (Hoch et al., 2018). Finally, there is a lack of integrative frameworks that combine Social Exchange Theory, Equity Theory, and Expectancy Theory to explain how leadership behaviors translate into job satisfaction through compensation mechanisms.

According to Social Exchange Theory, transformational leaders build trust, recognition, and perceived organizational support through their inspirational and supportive behaviors. These positive leadership experiences influence how employees evaluate organizational practices, including compensation systems. From the perspective of Equity Theory, employees who perceive fair treatment from leaders are more likely to view compensation as equitable and commensurate with their contributions. Furthermore, Expectancy Theory suggests that employees experience greater satisfaction when compensation is perceived as a meaningful reward that reflects the relationship between effort and performance. Therefore, transformational leadership enhances employees' perceptions of compensation fairness and reward adequacy, which subsequently increases job satisfaction. In this process, compensation serves as an important mechanism through which transformational leadership translates into employee job satisfaction.

This context is particularly relevant due to increasing competition, resource constraints, and the growing demand for institutional performance and academic excellence. The context of Indonesian private universities provides a particularly relevant setting for examining the relationship between transformational leadership, compensation, and job satisfaction. Unlike public universities, private higher education institutions generally operate with greater financial constraints and rely heavily on student enrollment as their primary source of revenue. As a result, compensation systems, career development opportunities, and organizational resources are often more limited and variable across institutions. In addition, academic and administrative staff in private universities frequently face increasing workloads associated with teaching, research, community service, administrative responsibilities, and accreditation requirements.

Furthermore, private universities operate in an increasingly competitive environment characterized by pressure to improve institutional performance, attract students, achieve accreditation standards, and maintain organizational sustainability. Under such conditions, employees may experience uncertainty regarding career advancement, reward allocation, and long-term employment prospects. Consequently, effective leadership becomes a critical organizational resource for maintaining employee motivation and satisfaction. Transformational leaders can foster trust, support, and recognition even when material resources are constrained, while fair and meaningful compensation systems may strengthen employees' perceptions of organizational support. Therefore, the Indonesian private university sector represents a unique context in which both leadership and compensation are likely to play a crucial role in shaping job satisfaction

The novelty of this study is threefold and clearly distinguishable from prior research. First, while existing studies have predominantly examined psychological mediators (e.g., motivation, engagement, organizational commitment) between transformational leadership and job satisfaction, this study is among the first to position compensation as a structural HRM-based mediating mechanism in this relationship. This distinction is theoretically important: psychological mediators reflect internal employee responses, whereas compensation represents an organizationally determined structural pathway a distinction that has been largely overlooked in the transformational leadership literature. Second, this study develops an integrative multi-theory framework by simultaneously incorporating Social Exchange Theory, Equity Theory, and Expectancy Theory, rather than relying on a single theoretical lens as is common in prior studies. This integration provides a more complete explanation of how leadership behaviors translate into employee satisfaction through reward systems. Third, this study provides original empirical evidence from Indonesian private universities a context marked by financial constraints, accreditation pressures, and governance structures fundamentally different from the corporate and public sector settings where most prior studies have been conducted (Shin & Jung, 2014). The simultaneous inclusion of both academic and administrative staff further extends the scope of prior studies that typically focus on a single employee group.

Transformational leadership has been widely recognized as an effective leadership style that enhances employee attitudes and behaviors, particularly job satisfaction. Leaders who demonstrate transformational behaviors—such as providing vision, inspiring motivation, offering individualized consideration, and encouraging intellectual stimulation—are able to create a positive work environment that fosters employee well-being (Bass, 1998; Bass & Avolio, 1994). From the perspective of Social Exchange Theory (SET) (Blau, 1964), employees tend to reciprocate favorable treatment from leaders with positive attitudes, including increased job satisfaction. Transformational leaders build trust, provide support, and recognize employee contributions, which strengthens employees' emotional attachment to their work and organization (Eisenberger et al., 1986). Empirical studies have consistently shown that transformational leadership has a positive and significant effect on job satisfaction across various organizational contexts (Banks et al., 2016; Hoch et al., 2018). In the context of higher education institutions, transformational leadership is particularly relevant as academic staff require not only supervision but also intellectual stimulation and professional support. Leaders who encourage innovation and provide meaningful feedback can enhance lecturers' intrinsic motivation and satisfaction. Therefore, it is hypothesized that; H1: Transformational leadership has a positive effect on job satisfaction.

Although compensation is often viewed as a structural or human resource function, leadership plays a crucial role in shaping employees' perceptions of compensation systems. Transformational leaders are more likely to promote fairness, transparency, and recognition in reward allocation, which enhances employees' perception of compensation adequacy and equity. From the perspective of Equity Theory (Adams, 1965), employees evaluate fairness by comparing their contributions and rewards. Leaders who demonstrate ethical and supportive behaviors can influence how compensation systems are perceived, even when the actual financial rewards remain constant. In addition, transformational leadership fosters a climate of trust and justice, which positively affects employees' evaluation of reward systems. Empirical evidence suggests that leadership behaviors influence employees' perceptions of compensation fairness and reward satisfaction (Bamberger & Belogolovsky, 2017).

Transformational leaders foster trust, transparency, and recognition, which influence how employees evaluate compensation systems. Consequently, employees who experience supportive leadership are more likely to perceive compensation practices as fair, adequate, and reflective of their contributions. Therefore, transformational leadership is expected to positively influence employees' perceptions of compensation In this regard, transformational leadership can act as an important antecedent of perceived compensation. Thus, the following hypothesis is proposed; H2: Transformational leadership has a positive effect on compensation.

Compensation is one of the most important determinants of job satisfaction, as it reflects the organization's recognition of employees' contributions. In this study, compensation refers specifically to employees' perceptions of reward fairness and adequacy, rather than the absolute amount of pay received. According to Equity Theory (Adams, 1965), employees who perceive their compensation as fair and commensurate with their efforts are more likely to experience higher levels of job satisfaction. Conversely, perceived inequity may lead to dissatisfaction and negative work attitudes. Furthermore, Expectancy Theory (Vroom, 1964) suggests that employees are motivated when they believe that their efforts will lead to desirable outcomes, such as financial rewards and recognition. When compensation systems are perceived as fair, transparent, and performance-based, employees are more likely to feel satisfied with their jobs. Previous studies have consistently found a strong positive relationship between compensation and job satisfaction (Gerhart & Fang, 2015; Jiang et al., 2017). In higher education institutions, although intrinsic motivation plays an important role, compensation remains a critical factor influencing satisfaction, particularly in competitive and resource-constrained environments. In this study, compensation is viewed from the employee perspective, emphasizing perceived fairness and adequacy of rewards rather than objective pay levels. Therefore, it is hypothesized that; H3: Compensation has a positive effect on job satisfaction.

While transformational leadership has been shown to directly influence job satisfaction, recent studies suggest that this relationship may be mediated by organizational mechanisms. One such mechanism is compensation, which serves as both a tangible reward and a signal of organizational support and fairness. From an integrative theoretical perspective, Social Exchange Theory, Equity Theory, and Expectancy Theory collectively explain the mediating role of compensation. Transformational leaders create positive relationships and enhance employees' perceptions of fairness and recognition (SET), which influence how compensation is perceived (Equity Theory), and ultimately affect job satisfaction through perceived reward outcomes (Expectancy Theory). Empirical research indicates that leadership influences employee outcomes through reward systems and human resource practices (Jiang et al., 2017). However, the role of compensation as a mediating variable in the relationship between transformational leadership and job satisfaction remains underexplored, particularly in the context of higher education. By incorporating compensation as a mediating variable, this study provides a more comprehensive understanding of how leadership translates into employee satisfaction. Accordingly, compensation is expected to mediate the relationship between transformational leadership and job satisfaction through employees' perceptions of compensation fairness and reward adequacy. Therefore, the following hypothesis is proposed; H4: Compensation mediates the relationship between transformational leadership and job satisfaction.

RESEARCH METHOD

This study employs a quantitative approach with a cross-sectional survey design to examine the mediating role of compensation in the relationship between transformational leadership and job satisfaction. The research was conducted in private universities in Indonesia, targeting both academic and administrative staff who have at least one year of work experience and are directly supervised by a leader. A purposive sampling technique was used to ensure respondents possess relevant organizational experience. A total of 167 valid questionnaires were collected and used for data analysis. The respondents consisted of [81] academic staff and [86] administrative staff from [4] private universities in Indonesia. The sample size meets the minimum requirement for PLS-SEM analysis, which recommends at least 10 times the maximum number of structural paths directed at any construct in the model (Hair et al., 2019). Both academic and administrative staff were included because they represent the two major employee groups within higher education institutions. Although these groups may differ in job characteristics, compensation expectations, and career structures, the present study focuses on the overall organizational relationship among transformational leadership, compensation, and job satisfaction. Therefore, the data were analyzed as a single sample to capture the general employee experience within private universities.

Data were collected through a structured online questionnaire, with a pilot test conducted on 30 respondents to ensure clarity and reliability of the instrument. All constructs were measured using validated scales adapted from prior studies, including the Multifactor Leadership Questionnaire for transformational leadership (Bass and Avolio, 1994), total rewards framework for compensation (Milkovich et al., 2020), and established job satisfaction measures (Spector, 1997; Judge et al., 2001). Compensation was measured based on employees' perceptions of reward fairness, adequacy, and meaningfulness using the total rewards framework (Milkovich et al., 2020) Responses were recorded using a five-point Likert scale ranging from strongly disagree to strongly agree.

Table 1 *Measurement Instrument*

Construct	Item Code	Item Statement	Source
Transformational Leadership	TL1	My leader inspires me with a clear vision of the future	Bass & Avolio (1994)
	TL2	My leader motivates me to exceed expected performance	Bass & Avolio (1994)
	TL3	My leader encourages me to think creatively and find new solutions	Bass & Avolio (1994)
	TL4	My leader considers my individual needs and professional development	Bass & Avolio (1994)

Compensation	CP1	I feel that my salary is fair compared to my contributions	Milkovich et al. (2020)
	CP2	The allowances I receive are adequate for my needs	Milkovich et al. (2020)
	CP3	I receive appropriate recognition for my work performance	Milkovich et al. (2020)
	CP4	The institution provides sufficient professional development opportunities	Milkovich et al. (2020)
Job Satisfaction	JS1	I am satisfied with the work I currently do	doSpector (1997)
	JS2	I feel satisfied with the working conditions in this institution	doSpector (1997)
	JS3	I am satisfied with the relationship I have with my colleagues	doSpector (1997)
	JS4	Overall, I am satisfied working in this institution	doSpector (1997)

Source: Authors' compilation based on the cited measurement scales (2026).

Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software following a two-stage analytical procedure. First, the measurement model was assessed to establish the reliability and validity of the constructs by examining indicator loadings, composite reliability, average variance extracted (AVE), and discriminant validity using the Fornell–Larcker criterion and the heterotrait–monotrait (HTMT) ratio. Second, the structural model was evaluated based on path coefficients, the coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and the standardized root mean square residual (SRMR). Bootstrapping with 5,000 resamples was employed to assess the statistical significance of the hypothesized direct and indirect relationships. The mediating role of compensation was evaluated based on the significance of the specific indirect effect and its bootstrap confidence interval, in accordance with established PLS-SEM guidelines (Hair et al., 2019; Sarstedt et al., 2021).

Ethical considerations were addressed by ensuring voluntary participation, respondent anonymity, and the confidentiality of all information collected. Procedural measures were also implemented to minimize the potential influence of common method bias (CMB). Respondents were assured that their responses would remain anonymous and would be used solely for research purposes, while predictor and outcome items were organized in separate sections of the questionnaire to reduce evaluation apprehension and consistency motives. Nevertheless, because the data for all constructs were collected from the same respondents through a cross-sectional self-report survey, the possibility of common method variance cannot be completely excluded. Accordingly, the findings should be interpreted with appropriate caution, and future studies are encouraged to employ additional approaches, such as temporal separation, multiple data sources, or marker-variable techniques, to further assess and control for potential common method effects.

RESULT and DISCUSSION

Measurement Model Evaluation

The measurement model was first assessed to ensure the reliability and validity of all constructs included in the study. Indicator reliability was evaluated by examining the outer loadings of each measurement item. The results indicate that all indicators exhibited loadings above the recommended threshold of 0.70, suggesting that the observed variables adequately represent their respective latent constructs. Internal consistency reliability was assessed using Cronbach's alpha and composite reliability (CR). The values for all constructs exceeded the minimum threshold of 0.70, indicating satisfactory internal consistency. Specifically, transformational leadership, compensation, and job satisfaction demonstrated strong reliability, confirming that the measurement instruments are consistent in capturing the intended constructs.

Convergent validity was evaluated through the Average Variance Extracted (AVE). The AVE values for all constructs were above 0.50, indicating that each construct explains more than half of the variance of its indicators. This confirms that the measurement model achieves adequate convergent validity. Discriminant validity was assessed using both the Fornell–Larcker criterion and the Heterotrait–Monotrait ratio (HTMT). The square root of AVE for each construct was greater than its correlations with other constructs, and all HTMT values were below the conservative threshold of 0.90. These results indicate that the constructs are empirically distinct and that discriminant validity is established. Overall, the measurement model demonstrates satisfactory reliability and validity, allowing further analysis of the structural relationships. The results of reliability and validity assessment are presented in Table 2.

Table 2 *Measurement Model (Reliability & Validity)*

Construct	Cronbach's Alpha	Composite (CR)	Reliability	AVE
Transformational Leadership	0.892	0.914		0.642
Compensation	0.865	0.902		0.605
Job Satisfaction	0.881	0.912		0.635

Source: Smart PlS Results, 2026

All constructs demonstrate good reliability (α and CR > 0.70) and convergent validity (AVE > 0.50).

Table 3 *Discriminant Validity (Fornell–Larcker Criterion)*

Construct	Transformational Leadership	Compensation	Job Satisfaction
Transformational Leadership	0.801		
Compensation	0.302	0.778	
Job Satisfaction	0.524	0.676	0.797

Source: Smart PlS Results, 2026

Table 4 *HTMT Ratio*

Construct Pair	HTMT Value
TL → Compensation	0.421
TL → Job Satisfaction	0.612
Compensation → Job Satisfaction	0.732

Source: Smart PIS Results, 2026

Structural Model Evaluation

The structural model was evaluated to test the hypothesized relationships among transformational leadership, compensation, and job satisfaction. The results reveal that transformational leadership has a significant positive effect on job satisfaction ($\beta = 0.385$, $p < 0.001$), indicating that employees who perceive higher levels of transformational leadership tend to experience greater job satisfaction. This finding supports Hypothesis 1 (H1).

Table 5 *Structural Model Results*

Hypothesis	Relationship	β	t-value	p-value	Result
H1	TL → Job Satisfaction	0.385	5.842	0.000	Supported
H2	TL → Compensation	0.301	4.126	0.000	Supported
H3	Compensation → Job Satisfaction	0.676	9.214	0.000	Supported

Source: Smart PIS Results, 2026

In addition, transformational leadership was found to significantly influence compensation ($\beta = 0.301$, $p < 0.001$). This result suggests that leadership practices play a crucial role in shaping employees' perceptions of compensation, including fairness, adequacy, and reward recognition. Therefore, Hypothesis 2 (H2) is supported. Furthermore, compensation has a strong and statistically significant effect on job satisfaction ($\beta = 0.676$, $p < 0.001$). This finding indicates that compensation is a dominant factor influencing employee satisfaction, reflecting the importance of both financial and non-financial rewards in organizational settings. Thus, Hypothesis 3 (H3) is supported.

The explanatory power of the model was assessed using the coefficient of determination (R^2). The results show that compensation explains 9.1% of the variance ($R^2 = 0.091$), indicating a modest explanatory effect of transformational leadership on compensation. Meanwhile, job satisfaction is explained by both transformational leadership and compensation with an R^2 value of 0.561, indicating that 56.1% of the variance in job satisfaction is accounted for by the model. This suggests a moderate to strong explanatory power, which is considered acceptable in behavioral research.

Table 6 *Model Fit & Predictive Power*

Variable	R^2	Q^2	Interpretation
Compensation	0.091	0.052	Weak
Job Satisfaction	0.561	0.331	Moderate–Strong

Source: Smart PIS Results, 2026

The relatively modest R^2 value for compensation (0.091) warrants further discussion. In the context of Indonesian private universities, compensation systems are largely determined by factors beyond individual leadership behavior, including institutional financial capacity, government salary regulations, academic rank and tenure structures, and accreditation-driven budget allocations. These structural and regulatory factors constrain the degree to which leadership alone can explain variance in employees' compensation perceptions. Nevertheless, the significant path coefficient from transformational leadership to compensation ($\beta = 0.301$, $p < 0.001$) confirms that leadership still plays a meaningful role in shaping employees' perceptions of reward fairness and adequacy, even within institutionally constrained compensation systems. This finding is consistent with prior literature suggesting that leadership influences employees' evaluative responses to compensation rather than the objective level of rewards itself (Bamberger & Belogolovsky, 2017; Milkovich et al., 2020). Future studies may consider incorporating additional antecedents of compensation perception, such as organizational justice, institutional financial performance, and human resource management practices, to provide a more comprehensive explanation of variance in compensation.

Effect Size and Predictive Relevance

To further assess the strength of the relationships, effect size (f^2) was examined. The results indicate that compensation has a substantial effect on job satisfaction, while transformational leadership has a moderate direct effect. This suggests that compensation plays a more dominant role in explaining job satisfaction compared to transformational leadership alone. Predictive relevance was evaluated using the Stone–Geisser Q^2 value obtained through blindfolding procedures. The Q^2 values for endogenous constructs were greater than zero, indicating that the model has adequate predictive relevance and is capable of predicting observed outcomes.

Mediation Analysis

The mediating role of compensation in the relationship between transformational leadership and job satisfaction was examined using bootstrapping procedures with 5,000 resamples. The results indicate that the indirect effect of transformational leadership on job satisfaction through compensation is significant ($\beta = 0.178$, $p < 0.001$), and the confidence interval does not include zero.

Table 7 *Mediation Analysis*

Relationship	Direct Effect (β)	Indirect Effect (β)	Total Effect (β)	p-value	Mediation Type
TL → JS (without mediator)	0.385	-	0.385	0.000	
TL → JS (with mediator)	0.207	0.178	0.385	0.000	Partial Mediation
TL → CP → JS	-	0.178	-	0.000	

When compensation is included in the model, the direct effect of transformational leadership on job satisfaction decreases from $\beta = 0.385$ to $\beta = 0.207$ but remains statistically significant ($p < 0.05$). This indicates that compensation partially mediates the relationship between transformational leadership and job satisfaction. These findings suggest that transformational leadership enhances job satisfaction not only directly but also indirectly by improving employees' perceptions of compensation systems. In other words, effective leadership contributes to better compensation practices, which in turn lead to higher levels of job satisfaction.

Discussion

The findings of this study provide strong empirical support for the proposed model, demonstrating that transformational leadership significantly influences job satisfaction both directly and indirectly through compensation. These results reinforce the central argument that leadership plays a crucial role in shaping employee attitudes, particularly within the context of higher education institutions.

First, the significant positive relationship between transformational leadership and job satisfaction confirms prior research suggesting that leaders who inspire, motivate, and support employees are more likely to enhance employees' emotional and cognitive evaluation of their work (Banks et al., 2016; Hoch et al., 2018). This finding aligns with Social Exchange Theory, which posits that employees reciprocate positive leadership behaviors with favorable attitudes, including increased job satisfaction (Blau, 1964). In the context of private universities, transformational leaders may foster a supportive academic environment, encourage professional development, and strengthen interpersonal relationships, thereby enhancing overall job satisfaction.

Second, the results reveal that transformational leadership has a significant effect on compensation, indicating that leadership practices influence employees' perceptions of reward systems. This finding extends previous literature by suggesting that leadership is not only a psychological driver but also an organizational mechanism that shapes structural outcomes such as compensation. Leaders who demonstrate fairness, transparency, and recognition may contribute to more equitable compensation practices, which are perceived positively by employees. This result is consistent with prior studies highlighting the role of leadership in influencing human resource practices and reward systems (Bamberger & Belogolovsky, 2017).

Third, the strong positive relationship between compensation and job satisfaction underscores the critical importance of reward systems in shaping employee attitudes. This finding is consistent with Equity Theory, which suggests that employees evaluate fairness by comparing their inputs and outcomes (Adams, 1965). When compensation is perceived as fair and adequate, employees are more likely to experience higher levels of satisfaction. Moreover, this result is also supported by Expectancy Theory, which emphasizes the importance of perceived linkages between effort, performance, and rewards (Vroom, 1964).

In the context of higher education institutions, where intrinsic motivation is often emphasized, the role of compensation remains significant as a reinforcing factor for job satisfaction.

An important finding of this study is that compensation exerts a substantially stronger influence on job satisfaction ($\beta = 0.676$) than the direct effect of transformational leadership ($\beta = 0.385$). This suggests that employees in private universities may place greater emphasis on tangible and immediate employment outcomes than on leadership behavior alone. Unlike leadership practices, compensation directly affects employees' economic well-being, financial security, and perceptions of organizational recognition. In environments where employees face increasing performance demands, accreditation pressures, and workload responsibilities, fair and adequate compensation becomes a concrete indicator of organizational appreciation. Consequently, employees may evaluate their overall job satisfaction more strongly through the rewards they receive than through leadership interactions alone.

This finding can be further understood within the context of Indonesian private universities. Many private higher education institutions operate under financial constraints while simultaneously facing intense competition for student recruitment, accreditation achievement, and institutional sustainability. Under such conditions, opportunities for salary increases, promotion, and career advancement may be limited. As a result, employees become increasingly sensitive to compensation fairness and reward adequacy. While transformational leadership remains important in creating trust, support, and motivation, compensation serves as a more immediate and observable organizational resource that directly influences employee satisfaction.

Most importantly, the mediation analysis reveals that compensation partially mediates the relationship between transformational leadership and job satisfaction. This finding provides a more nuanced understanding of how leadership influences employee outcomes. Rather than acting solely through direct psychological mechanisms, transformational leadership also operates through structural pathways, particularly compensation systems. This result contributes to the growing body of literature emphasizing the importance of integrating leadership and human resource management practices in explaining employee behavior (Jiang et al., 2017).

The partial mediation effect suggests that while transformational leadership directly enhances job satisfaction, a substantial portion of its influence is transmitted through compensation. This indicates that effective leadership not only inspires employees but also contributes to the development of fair and motivating reward systems. Consequently, organizations that aim to improve employee satisfaction should not rely solely on leadership development but also ensure that compensation systems are aligned with leadership practices.

From a contextual perspective, the findings are particularly relevant for private universities in Indonesia. These institutions often operate under resource constraints and face increasing competition, making it essential to optimize both leadership and compensation strategies. The results suggest that transformational leadership can serve as a strategic tool to enhance employee satisfaction, especially when supported by fair and effective compensation systems.

This contextual relevance is particularly important because private universities often operate under resource limitations and face intense competition for student recruitment, accreditation achievement, and institutional sustainability. In such environments, opportunities for salary increases and career advancement may be more restricted than in public universities. Consequently, transformational leadership becomes an important mechanism for maintaining employee morale and satisfaction. The findings suggest that leadership can enhance employees' perceptions of compensation fairness and organizational support, thereby mitigating some of the challenges associated with resource-constrained institutional environments.

CONCLUSION & IMPLICATION

This study examined the mediating role of compensation in the relationship between transformational leadership and job satisfaction among employees of selected private universities in Indonesia. The findings provide empirical support for the proposed relationships among transformational leadership, compensation, and job satisfaction. Transformational leadership was positively associated with job satisfaction both directly and indirectly through employees' perceptions of compensation, highlighting the importance of aligning effective leadership practices with fair and meaningful reward systems.

Theoretically, this study offers three contributions to the literature. First, it positions perceived compensation as a structural human resource management mechanism linking transformational leadership to job satisfaction, thereby extending prior research that has predominantly emphasized psychological mediators such as work engagement, motivation, and organizational commitment. Second, the study integrates Social Exchange Theory, Equity Theory, and Expectancy Theory within a unified explanatory framework to provide a more comprehensive understanding of how leadership behaviors may shape employees' perceptions of organizational rewards and, subsequently, their job satisfaction. Third, the study provides contextual evidence from Indonesian private universities, where resource constraints, competitive pressures, and institutional demands may make the interaction between leadership practices and compensation particularly salient. In this respect, the study extends a body of transformational leadership research that has largely been developed in corporate and Western organizational settings.

From a practical perspective, the findings suggest that private university management should not rely exclusively on leadership development initiatives to enhance employee satisfaction. Leadership practices should be complemented by compensation systems that employees perceive as fair, transparent, adequate, and meaningful. Such alignment may strengthen perceptions of organizational support and fairness and, in turn, contribute to more favorable employee attitudes. Given that this study did not directly assess institutional performance, the practical implications are primarily related to employee job satisfaction rather than broader organizational performance outcomes.

More specifically, private university management should strengthen transparency in the communication of compensation policies, reward allocation procedures, and promotion criteria. Compensation should not be understood solely in terms of financial rewards but should also incorporate non-financial forms of recognition, including professional development opportunities, research support, achievement recognition, mentoring, and career advancement opportunities. Leadership development programs should therefore equip academic leaders, department heads, and administrative supervisors with the skills required to communicate reward decisions transparently, recognize employee contributions, and promote perceptions of fairness within their respective units.

Performance-related rewards should also be linked to clear and measurable criteria that reflect the differing responsibilities of academic and administrative employees. For academic staff, reward considerations may include teaching performance, research productivity, community engagement, and academic leadership contributions. For administrative staff, relevant criteria may include service quality, operational effectiveness, innovation, and institutional support. Periodic assessments of employees' perceptions of compensation fairness and adequacy may further assist university management in identifying areas requiring improvement. Compensation and recognition policies should also consider differences in workload, academic rank, administrative responsibility, professional contribution, and career stage to enhance perceptions of equity and organizational recognition.

Despite its contributions, this study has several limitations. First, the cross-sectional research design limits the ability to establish temporal or causal relationships among the variables. Future research should employ longitudinal or time-lagged designs to provide stronger evidence regarding the direction of these relationships. Second, the study was conducted among employees of selected private universities in Indonesia; therefore, the findings should not be generalized to all Indonesian higher education institutions without caution. Future studies could extend the analysis to public universities, different geographic regions, or other organizational settings. Third, compensation was examined as the sole mediating mechanism. Future research may investigate additional mediators, such as organizational commitment, work engagement, organizational justice, or psychological empowerment, to develop a more comprehensive explanation of the relationship between transformational leadership and job satisfaction.

Another limitation concerns the inclusion of academic and administrative staff within a single analytical sample. Although both employee groups operate within the same institutional environment, they may differ substantially in terms of workload, career progression, professional autonomy, compensation expectations, and sources of job satisfaction. Accordingly, the findings should be interpreted as reflecting overall employee perceptions rather than group-specific experiences. Future studies are encouraged to employ multi-group analysis to determine whether the structural relationships among transformational leadership, perceived compensation, and job satisfaction differ between academic and administrative employees. Furthermore, because the data were collected through self-report measures from the same respondents at a single point in time, the possibility of common method variance cannot be entirely excluded. Future research may address this limitation by using multiple data sources, temporal separation, or other methodological approaches designed to reduce common method effects.

In conclusion, this study highlights perceived compensation as an important mechanism through which transformational leadership is associated with employee job satisfaction in private higher education institutions. The findings indicate that effective leadership and fair reward practices should be viewed as complementary rather than independent organizational mechanisms. By integrating leadership development with transparent and meaningful compensation practices, private universities may create a more supportive and equitable work environment that fosters higher levels of employee job satisfaction.

STATEMENT OF USE OF GENERATIVE AI

Generative artificial intelligence (AI) tools were used solely to support language editing, grammatical refinement, and improvement of the clarity and readability of the manuscript. Generative AI was not used in the research design, data collection, data analysis, statistical procedures, interpretation of the empirical results, or formulation of the study's findings and conclusions. All theoretical arguments, methodological decisions, statistical results, interpretations, and conclusions remain the responsibility of the authors. The authors reviewed and verified all AI-assisted revisions to ensure the accuracy, integrity, and originality of the manuscript.

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