

The Role of digital leadership, work engagement and compensation on the Work Performance of SMEs

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Abstract

The purpose of this study is to analyze the relationship between digital leadership variables and employee performance, analyze the relationship between compensation variables and employee performance, and analyze the relationship between Employee Empowerment variables and employee performance. This research method is quantitative. Population and Sample In this study, purposive sampling was used. Data Analysis Technique In this study, the data that has been processed and analyzed will be used for the analysis design; in this study, the data analysis used smart-PLS software version 3. The respondents of this study were 346 SME managers in Indonesia. A measurement model with reflective and formative indicators was used in the study, and the validity and reliability were tested. In running the PLS algorithm in smart-PLS, an external model estimate was obtained by producing convergent validity values, discriminant validity, AVE, Cronbach's alpha and composite reliability. The research data were obtained by distributing online questionnaires, which were designed to contain statement items using a Likert scale of 1 to 7. The collected data will be analyzed using Structural Equation Modeling (SEM) with the Partial Least Squares (PLS) methodology. SEM-PLS was chosen because of its ability to handle complex models and smaller sample sizes, making it well-suited to the intricacies of this study. The analysis will be conducted in several stages: Measurement Model Assessment: Confirmatory factor analysis will be used to validate the measurement model and ensure the reliability and validity of the latent variables. Structural Model Estimation: The structural relationships between organizational culture, innovative leadership, digital technology adoption, and startup success will be examined using SEM-PLS. Bootstrapping: To increase the robustness of the results, bootstrapping with resampling will be used to assess the significance of the path coefficients and test the overall model fit. The results of this study's analysis show that digital leadership has a positive effect on employee performance, compensation has a positive effect on employee performance, and employee empowerment has a positive effect on employee performance.

Keywords: digital leadership, work environment, compensation, work performance, SMEs

Introduction

Small and Medium Enterprises (SMEs) are an economy that contributes significantly to employment and economic development. These companies play a vital role in driving innovation, entrepreneurship, and dynamic economic growth. The development and management of SMEs are critical to their survival and growth. However, SMEs face several challenges, such as limited business management, fear of taking risks, and lack of guidance and involvement from related agencies. According to Aldoseri et al. (2020), Access to finance is also an important factor affecting SME performance, with small companies facing more difficulties compared to medium-sized enterprises. To encourage sustainable growth and development in the SME sector, policymakers must design favourable tax policies that provide incentives for investment and business growth. In addition, SMEs must utilize these favorable tax policies strategically to encourage growth and competitiveness. The success of SMEs is closely related to the satisfaction and productivity of their workforce. Understanding the factors that influence employee job satisfaction is critical to the sustainable growth of SMEs. The results of Hajiali et al.'s (2022) study showed that job training positively affected employee performance but was not statistically significant. Employee performance is positively and statistically significantly affected by the work environment. The relationship between compensation and job satisfaction is significant. A sustainable work environment can positively predict employee retention, job satisfaction, job involvement, and perceived organizational support; which consists of perceived climate, supervisory relationships, peer group interactions, and organizational support. According to Duan et al. (2023) Employee performance (EP) and electronic human resource management (E-HRM) have substantial positive effects on job satisfaction. Therefore, in SME operations, job training, work environment, and compensation are very important determinants of employee experience, job satisfaction, and productivity.

According to Durán et al. (2021), Indonesia's dynamic SMEs have attracted the attention of investors, entrepreneurs, and policymakers due to unprecedented opportunities and challenges. The digital economy plays a significant role in driving the growth of Indonesian SMEs, with the government implementing policies to enhance global competitiveness. The development of a business ecosystem is critical to the success of startups, and efforts are being made to create an environment where startups can connect and collaborate with partners. The creative economy sector has proven its resilience, and there is a need to update regulations to attract more investors, especially in the creative industry. Government policies, funding, and networks are important components in shaping the entrepreneurial ecosystem in West Java, with tax incentives and support for small and medium enterprises playing a significant role. According to Azmy et al. (2022), the increasing penetration of internet users has contributed to the growth of startups in Indonesia, especially in the logistics aggregator sector, with the valuation of these startups expected to increase in the coming years. The success or failure of startups in Indonesia is influenced by various factors, including organizational culture, innovative leadership, and digital technology. These factors play a significant role in determining the success of startup businesses

in Indonesia. Organizational culture, which refers to the values, beliefs, and norms within a startup, has a significant and positive impact on performance. According to Chan et al. (2021), innovative leadership, characterized by entrepreneurial leadership and a focus on digital technology, also plays a significant role in driving business success. It has been found that entrepreneurial leadership has a significant and negative effect on innovative work behavior, while digital technology has a significant impact on organizational commitment. Therefore, startups need to cultivate a strong organizational culture, embrace innovative leadership practices, and leverage digital technology to increase their chances of success in the competitive business landscape.

Human resource management (HRM) plays an important role in the progress of a company, especially in facing the challenges of globalization, changing mindsets, and economic difficulties. HR is a key element that drives other resources to achieve company goals. Effective HRM is needed to drive other resources, maintain good relations between the company and employees, and ensure the success of the organization. According to Antonopoulou et al. (2021), HRM is responsible for managing the human component to ensure employees are satisfied with their jobs. HRM is the science and art of managing labor relations effectively and efficiently to achieve the goals of the company, employees, and society. Optimal HRM management through utilization, development, assessment, and maintenance. HRM is also influenced by external factors such as economics, culture, and politics, which add complexity to its management. According to Benitez et al. (2022), HRM is the science and art of studying the management of HRM and other resources effectively and efficiently to achieve the company's vision, mission, and goals. Irmayani (2022) explains the functions of human resource management, including the main functions of human resource management, which consist of (1) planning, (2) organizing (staffing), (3) directing/moving (directing), and (3) controlling. The operational functions of human resource management consist of (1) procurement, (2) development, (3) compensation, (4) integration, and (5) maintenance. The goal of human resource management is to optimize the productivity of all workers in an organization. According to Larasati (2018), the specific goal of human resource management is to help line managers manage workers more effectively.

According to Chan et al. (2021,) the company's performance, nice is greatly influenced by the performance of its employees because employees are the main component in achieving organizational goals. , performance is defined as the work results achieved by an employee, both in quality and quantity, in accordance with the responsibilities given. Performance is influenced by the skills, experience, sincerity, and time of an employee. Torang (2013) stated that employee performance refers to the results achieved based on standards, targets, and procedures in force in the company. Judging from the opinions of researchers, it can be concluded that performance contains the substance of achieving work results by an individual, both in terms of quality and number of employees over a certain period of time in carrying out the obligations given to him. Factors that influence performance, according to Jamaludin (2017), include (1) individual ability, (2) effort devoted, (3) organizational support. Performance is divided into two types, namely individual performance and organizational performance. There are 5 (five) dimensions and 10 (10) indicators to measure employee performance individually, including (1) work quality has

assessment indicators: (a) speed, (b) work targets. (2) Quantity of work has assessment indicators, namely: (a) neatness in working, (b) accuracy in completing work. (3) Cooperation has assessment indicators, namely: (a) network of cooperation, (b) compactness. (4) Responsibility has assessment indicators, namely: (a) work results, (b) on time. (5) Initiative consisting of indicators, namely: (a) desire, (b) independence

According to Rožman et al. (2023), Digital Leadership is the process of influencing subordinates to achieve organizational or business goals. Leaders must be able to direct their employees in daily business activities. Leadership is the process of influencing individual or group activities to achieve certain goals; leaders are someone who inspire their followers to achieve organizational goals. Leadership is divided into two types, namely transactional and transformational leadership. Transactional leadership focuses on meeting the needs of subordinates with rewards, while transformational leadership works with subordinates to go beyond personal goals and inspire them for the benefit of the organization. According to Umair et al. (2024), in the digital era, leadership is also undergoing transformation. Digital leadership describes electronic innovations that produce, store and process data. Digital leadership requires the ability to utilize information and communication technology effectively in achieving organizational goals. The digital era changes leaders in managing their organizations, several new steps must be taken by leaders to be implemented in supporting the work period, namely: (1) communication skills, (2) open thinking, (3) responsive to change, (4) daring to take risks. According to Winasis et al. (2020), the Dimensions of digital leadership are: (1) communicating digitally, measured by indicators, a) communicating, and b) coordinating effectively with digital. (2) Thinking and working together without time and space limitations, measured by indicators: a) working together without space and time limitations, b) giving instructions or coordinating without space and time limitations. (3) Monitoring and managing work virtually. (4) Adapting to changes in the technological environment with indicators: a) efficiency in providing solutions through digital, b) updating the use of technology

According to Tyagi et al. (2021), Transformational leadership in the digital technology era should not only understand changes in the digital world but also be an active designer of change. Digital transformational leadership that sees the threat of digital transformation must be ready to lose old businesses and emerge into new businesses by adapting comprehensively and accelerating with faster changes to deliver innovations that guarantee long-term success. According to Umair et al. (2024), a digital leader is someone who is able to utilize information technology to achieve common goals in an organization. Digital leadership is also known as electronic leadership (e-Leadership). E-leadership occurs in the context of the environment. Where work is done through information technology, especially the use of the Internet. In addition to leadership style factors, compensation is an important aspect that can affect employee performance. With compensation, companies want employees to improve their work results. Mistakes in giving awards will result in dissatisfaction among workers. Providing attention and compensation fairly and appropriately can increase good work enthusiasm.

Basically, salary or wages are the main reason why employees work as a reward for their work activities; one way to improve employee performance is to pay them. According to Schultz et al. (2021), Compensation is a financial and non-financial reward received by workers as a result of the working relationship between the employer and the employee. Compensation is not always in the form of money or goods; it can also be in intangible forms, such as vacation packages or extended vacation time. The purpose of providing compensation is cooperation, job satisfaction, effective procurement, motivation, and employee stability, with compensation programs based on the principles of justice, discipline, the influence of labour unions, and the influence of the government. There are three types of compensation that companies usually provide to their employees: (1) direct financial compensation, (2) indirect financial compensation, and (3) non-financial compensation. According to Sitopu et al. (2021), Each company has different indicators in the employee payroll process. The dimensions and indicators of compensation in general are as follows: (1) direct compensation: salary, incentives or bonuses, insurance, and allowances; (2) indirect compensation: promotion opportunities, recognition, comfort, and leave.

According to Umair et al. (2024), Empowerment of Human Resources Empowerment etymologically comes from the word power, which means the ability to do something or act. According to Zen et al. (2023), Getting the prefix and suffix pe-an becomes empowerment, which can be interpreted as an effort/process to make capable, able to act or do something) Empowerment is part of development activities through employee involvement, namely providing sufficient authority and responsibility to complete tasks and decision-making. According to Winasis et al. (2020), Every employee has the potential to be involved and contribute to work and decision-making. Empowerment is one form of a decentralized system that involves subordinates in making decisions. In this case, empowerment is also an effort to provide autonomy, authority, and trust to each individual in a company and encourage them to be creative so that they can complete their tasks as well as possible.

The Influence of Digital Leadership on Employee Performance

According to Rožman et al. (2023), Leadership is closely related to performance, which can drive innovation in the company. Zen et al. (2023) believe that digital leadership is not only about introducing technical skills such as the use of e-mail, websites, and social media in daily work activities. In other words, digital leadership is oriented towards data management and analysis; non-technical skills are also needed because they are related to the ability to adapt, interact, and self-regulate. The results of the study by Schultz et al. (2021) prove that digital leadership has a positive and significant effect on performance.

H1: There is a positive influence of digital leadership on employee performance

The Effect of Compensation on Employee Performance

According to Zahari et al. (2023), Employee performance is greatly influenced by the compensation system implemented by the company. Compensation is all income in the form of money or goods directly or indirectly received by employees in return for services provided to the company. According to Zen et al. (2023), the implementation of an appropriate compensation system in terms of quality and quantity can be shown in employee behaviour, including

performance and productivity. The results of research by Umair et al. (2024) and Winasis et al. (2020)) compensation has a positive and significant effect on employee performance.

H2: There is a positive effect of compensation on employee performance

Relationship between Employee Empowerment and Employee Performance

Research by Sitopu et al. (2021) shows a positive correlation between employee empowerment and performance. Found that empowerment has a significant impact on employee performance because it gives employees freedom and trust in making decisions. Research by Zen et al. (2023) shows that empowerment creates an atmosphere of mutual trust that strengthens interpersonal relationships between employees and management, thus encouraging optimal performance. However, Tyagi et al.'s (2021) study did not find a significant relationship, which may be due to differences in organizational culture.

H2: There is a positive influence of Employee Empowerment on employee performance

Method

This research method is quantitative. Population and Sample In this study, purposive sampling was used. Data Analysis Technique In this study, the data that has been processed and analyzed will be used for the analysis design; in this study, the data analysis uses smart-PLS software version 3. The respondents of this study were 346 SME managers in Indonesia. The measurement model with reflective and formative indicators is used in the study, where the validity and reliability are tested. In running the PLS algorithm in smart-PLS, an external model estimate is obtained by producing convergent validity values, discriminant validity, AVE, Cronbach's alpha and composite reliability. The research data were obtained by distributing online questionnaires, which were designed to contain statement items using a Likert scale of 1 to 7. The collected data will be analyzed using Structural Equation Modeling (SEM) with Partial Least Squares (PLS) methodology. SEM-PLS was chosen because of its ability to handle complex models and smaller sample sizes, making it very suitable for the ins and outs of this study. The analysis will be conducted in several stages: Measurement Model Assessment: Confirmatory factor analysis will be used to validate the measurement model and ensure the reliability and validity of the latent variables. Structural Model Estimation: The structural relationships between organizational culture, innovative leadership, digital technology adoption, and startup success will be examined using SEM-PLS. Bootstrapping: To increase the robustness of the results, bootstrapping with resampling will be used to assess the significance of the path coefficients and test the overall model fit.

The hypothesis in this study is

H1: There is a positive influence of digital leadership on employee performance

H2: There is a positive influence of compensation on employee performance

H2: There is a positive influence of Employee Empowerment on employee performance

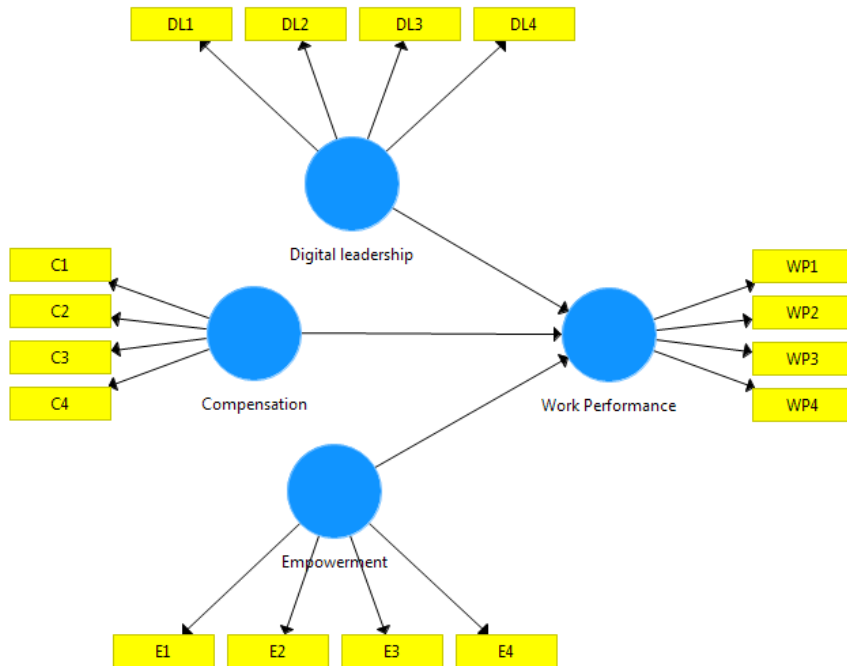


Fig 1. Research Model

Result and Discussion

Convergent Validity

The following are the results of data processing based on four variables with a total of 16 statements.

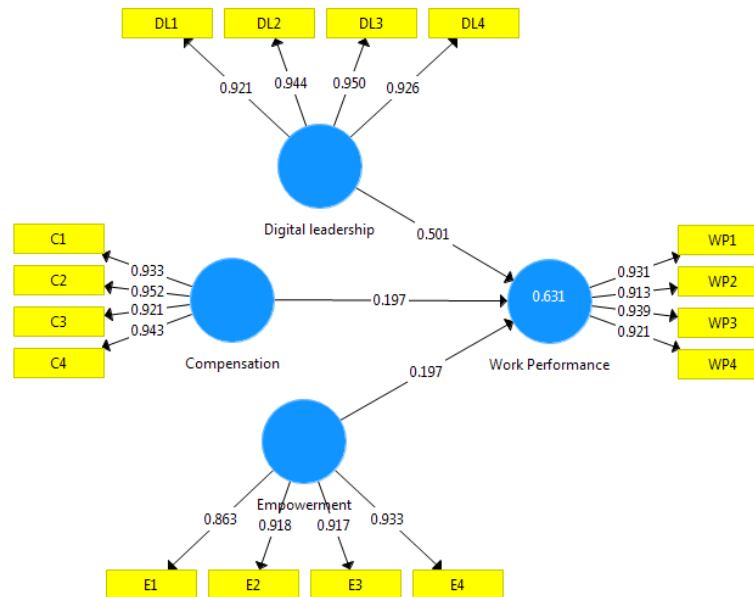


Fig 1. Convergent validity

From the image above, the results of each construct value exceed 0.5. So, it is concluded that no problems were found in the analyzed construct model. Discriminant Validity Discriminant validity is used to ensure that each idea in each latent model is different from other variables. This validity test is carried out to determine the accuracy of a measuring instrument in performing its measurement function. In smart-PLS testing on discriminant validity, the value of the Fornell-larcker criterion and cross-loading is obtained.

Table 2. Fornell Larcker

	Digital leadership	Compensation	Empowerment	Work Performance
Digital leadership	0.832			
Compensation	0.783	0.812		
Empowerment	0.712	0.789	0.834	
Work Performance	0.781	0.734	0.789	0.856

Table 2 above shows that each indicator has a higher loading value on the appropriate construct than the cross-loading. Thus, the structural indicator shows superior discriminant quality compared to other indicators.

Table 3. Composite Reliability

	Composite Reliability	Cronbach's alpha	Average Variance Extracted

Digital leadership	0.753	0.756	0.745
Compensation	0.712	0.719	0.709
Empowerment	0.754	0.745	0.781
Work Performance	0.716	0.723	0.712

In table 3, the reliability of the instrument by looking at the model value can be obtained in the cronbach's alpha and composite reliability tests. The composite reliability value must be > 0.70 although a value of 0.60 is still acceptable. In this study, it has a value above 0.7. It is concluded that all of the construct variables are considered to have high-reliability values and can be used for research.

Hypothesis Testing

Hypothesis testing in this study is based on the values contained in the SEM analysis with the limits of the hypothesis testing values. The following are the results of the complete model testing and the hypothesis of this study:

Table 4. Hypothesis Testing

Hypothesis	T Value	P Value	Result
Digital leadership->Work Performance	4.836	0.000	Supported
Compensation->Work Performance	5.286	0.000	Supported
Empowerment->Work Performance	5.510	0.000	Supported

The SmartPLS 3.0 program only provides the bootstrap resampling method. The significance value used is 1.96 (significance level = 5%). So, the construct that has a tcount > 1.96 is declared to have a significant effect. The following is a summary of the results of the hypothesis test.

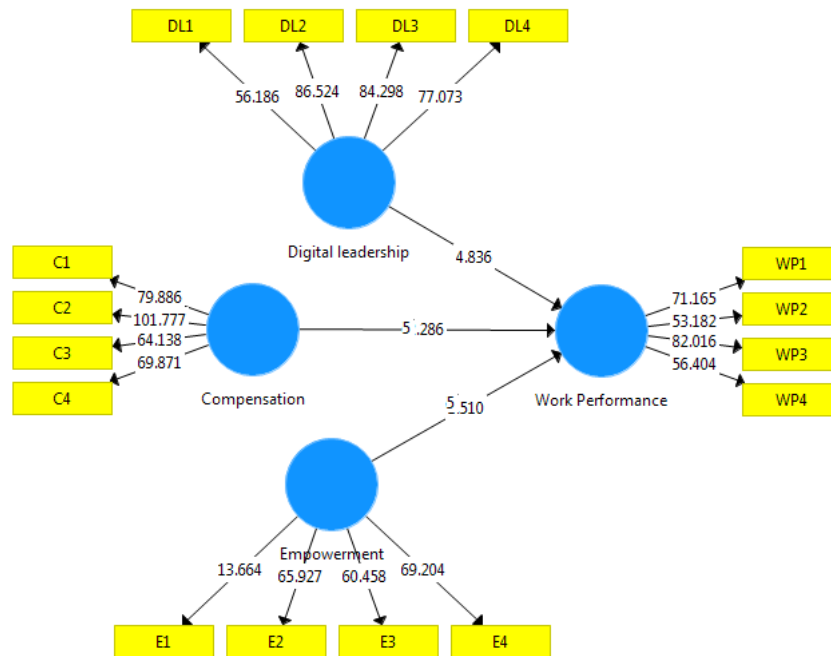


Fig 3. Hypothesis Testing

The Influence of Digital Leadership on Employee Performance

Based on the test, the results of the variable have an original sample value of 0.501 and have a result in the t-statistic test of 4.836, Greater than Table 1.96, which proves that the variable is significant. In the results of the explanation above, the digital leadership variable has significant results on employee performance; these results are in line with the results of previous studies by Paais et al. (2020), Rahi et al. (2023), stated that digital leadership has a significant influence with its dimensions (innovation, persuasion and knowledge) on performance. However, this is in line with research conducted by Öngel et al. (2023) and Olsen et al. (2023), which states that leadership style partially affects employee performance. The results of Lim et al. (2023) and Maango et al. (2022) show that digital leadership does not have a significant effect on performance because its implementation is optimal. This indicates the need to improve digital leadership skills through training so that leaders are better able to utilize technology and support virtual work effectively.

The results of the Hypothesis test prove that Digital Technology has an effect on Organizational Performance. The better the Digital Technology implemented by an organization, the better the Organizational Performance will be. Digital Technology, based on the results of the hypothesis test, states that it has an effect on Organizational Performance. This is in accordance with and supports previous research by Lim et al. (2023), Maango et al. (2022), and Öngel et al. (2023)) which states that the Digital Technology variable has an effect on Organizational performance. The application of technology in an organization can have a significant impact on effectiveness and efficiency and increase competitiveness because information technology provides a number

of data regarding the running of the organization so that the organization can obtain the data needed as a basis for making strategic decisions, especially for Organizational Performance.

Hypothesis Testing Results prove that Digital Leadership has an influence on Organizational Performance. The results of this study support the results of research by Öngel et al. (2023) and Olsen et al. (2023), which shows that there is a positive impact of digital transformation on the performance of women-owned businesses. It was also emphasized that there are significant differences in the level of product and service quality, product and service development capacity, productivity, and overall performance levels between companies that have undergone digital transformation for less than two years and those that have been in the process for more than two years supporting the latter. Digital transformation is an opportunity to improve the business performance of a group of businesses that are considered to have limited access to markets and funding sources, such as women-owned businesses. Likewise, research by Paais et al. (2020) and Rahi et al. (2023) proves the influence of digital transformation on company performance. Organizations that adopt digital leadership show better business results. Stronger financial performance. Around 76% of executives who implement digital leadership have greater acceptance and profit growth. Employees feel satisfied and engaged. More than 87% of employees in organizations that implement leadership. In the era of Industry 4.0, the role of leaders must follow the pattern of organizational needs. Leadership style is influenced by the rapid development of technology, which has changed traditional leadership styles to digital leadership. A digital leader has the ability to inspire his employees to fight for and defend ideas. The sharpness in applying digital leadership benchmarks shows a fast, cross-hierarchical, cooperative, and team-oriented approach that often integrates innovation Paais et al. (2020) Rahi et al. (2023), In line with research. Increasing the effectiveness of system use cannot be separated from the participatory leadership style. Good leadership disseminates leadership information to a number of people who work cooperatively and interdependently to achieve the goals of an organization.

The Effect of Compensation on Employee Performance

Based on the test, the results of the variable have an original sample value of 0.197 and have a result in the t-statistic test of 5.286, Greater than Table 1.96, which proves that the variable is significant. In the results of the explanation above, the compensation variable (x3) has significant results on employee performance (y). Thus, h3 is accepted; this is also in line with research conducted by Duan et al. (2023) and Hajjali et al. (2022)) which state that the compensation variable has a positive effect on employee performance. This is not in line with research conducted by Antonopoulou et al. (2021), Azmy et al. (2022), and Benitez et al. (2022) on the partial direct effect of the compensation variable does not have a significant effect on the performance of millennials employees with a significant value of $0.376 > 0.05$. Positive compensation has a direct impact on employee satisfaction and work motivation. A fair compensation program helps increase job satisfaction and build employee trust in the company. Meanwhile, in the direct compensation dimension, "salary" shows a lower influence, indicating that employee expectations have not been fully met, which risks reducing motivation. Adjusting salary to responsibility can improve employee welfare.

According to Aldoseri et al. (2020), Compensation is employee job satisfaction that is influenced by various factors. In addition to financial implications, a fair and competitive remuneration framework can foster a perception of value and recognition among staff members. What is most important in the context of small and medium enterprises (SMEs), where financial resources may be limited, is the strategic design of the compensation program. According to the study, the level of employee job satisfaction is significantly predicted by the perceived fairness of the compensation system rather than by its absolute amount. In addition, the alignment of compensation with individual and organizational performance is a key consideration in SMEs. Incentive structures that reward contribution and achievement have been shown to have a positive impact on job satisfaction and performance. Understanding how compensation structures are perceived and valued by employees in SMEs will provide insight into the dynamics of this important factor. The findings indicate that compensation significantly improves employee job satisfaction. The measurement model analysis validates the validity and dependency of compensation indicators, and the path coefficients from the structural model support the hypothesis. This highlights the importance of fair and competitive compensation arrangements on employee satisfaction levels in the SME environment. Practically, organizations should regularly review and adjust their compensation structures to remain competitive in the market. A fair and transparent compensation system not only attracts the best talent but also contributes to higher levels of employee satisfaction and commitment. According to Durán et al. (2021), Duan et al. (2023) Hajiali et al. (2022), Compensation is a tool to encourage employee performance, increase motivation, and create a sense of comfort at work. The impact of compensation can affect individual behaviour. An organization can compare the compensation received with their peers, which can affect individual behaviour if there is a gap in compensation. Attractive and timely compensation can also affect increased employee work motivation. Compensation includes income in the form of money or goods, either directly or indirectly, received by employees in return for their contributions to the company. For employees, this compensation is important because it reflects their value, and the amount can affect performance and job satisfaction. The success of determining the right compensation will affect the quality of human resources in the workplace, which has an impact on the achievement of employee goals and the efficiency of the company's budget. In addition, this also affects the sustainability of the organization in an increasingly competitive work environment.

Relationship between empowerment and performance

Based on the test, the results of the variable have an original sample value of 0.197 and have a result in the t-statistic test of 5.510, Greater than Table 1.96. Based on the results of this study, employee empowerment has a positive and significant effect on performance. This empowerment includes giving greater authority and responsibility in carrying out work and participation in decision-making related to their duties. This finding is in line with research by Zen et al. (2023), which states that empowerment provides opportunities for employees to manage their tasks more independently so that they can complete work more quickly and efficiently. Empowerment encourages employees to act proactively, take initiative, and work with high responsibility. According to Rožman et al. (2023), empowerment also builds close interpersonal relationships between employees and management, creating a work environment of

mutual trust. Empowerment allows employees to make more decisions without having to rely on more senior authorities. This empowerment creates a greater sense of responsibility, where employees are willing to accept more challenging tasks and contribute to achieving organizational goals. The trust given to employees strengthens their involvement in the decision-making process so that they feel like an important part of the organization. The results of this study support the findings of Schultz et al. (2021) and Tyagi et al. (2021), who found a positive and significant relationship between employee empowerment and performance. However, these results differ from the studies of Winasis et al. (2020), Zahari et al. (2023), and Zen et al. (2023), who did not find a significant effect. This difference may be due to different organizational characteristics, work culture, or management approaches. Overall, this study shows that employee empowerment is one of the important factors that drives performance. Management needs to consider more effective empowerment strategies, such as training, involving employees in decision-making, and providing adequate authority. These steps will strengthen employee commitment to organizational goals and encourage them to give their best performance.

The results of this study are in line with the opinions of Durán et al. (2021) and Hajiali et al. (2022), who stated that work empowerment allows employees to make decisions related to their tasks without the need for explicit authorization from superiors. This allows for faster and more efficient task completion and encourages creativity in finding solutions. According to Aldoseri et al. (2020), Durán et al. (2021), Duan et al. (2023), and Hajiali et al. (2022) also support this finding, emphasizing that empowerment is a process that builds interpersonal relationships between employees and management through ongoing trust.

According to Chan et al. (2021), empowerment allows employees to accept responsibilities beyond their previous roles and contribute more to organizational performance. By shifting the role from workers who receive instructions to those who provide direction for their subordinates, empowerment facilitates employee growth into more proactive leaders. The findings of this study indicate that empowerment includes three important points: giving responsibility and authority to employees, building trust between employees and management, and involving employees in decision-making. This study supports the results of previous studies. According to Aldoseri et al. (2020) and Antonopoulou et al. (2021), work empowerment has a positive and significant effect on employee performance. Work empowerment allows employees to feel valued, have clear responsibilities, and play an active role in organizational goals. In contrast, research by Duan et al. (2023) and Hajiali et al. (2022) states that empowerment does not have a significant effect on employee performance. This inconsistency may be due to differences in the industrial context or the characteristics of the respondents who are the objects of the study.

Conclusion

The results of this study analysis show that digital leadership has a positive influence on employee performance, compensation has a positive influence on employee performance, and employee empowerment has a positive influence on employee performance. The implications of the results of this study emphasize the importance of three main factors, namely digital leadership, emotional commitment, and fair compensation, to improve employee performance.

Although digital leadership has been implemented, these results indicate that optimization of digital skills and cross-border coordination capabilities among leaders is still needed to support effective collaboration and more responsive team productivity. Employee emotional commitment has an important impact on increasing loyalty, reducing turnover rates, and driving higher productivity, while fair compensation helps retain quality employees and creates a positive work environment. This study has limitations in the small number of respondents, which may be less representative of the wider population. In addition, the study only involved three main variables, so other aspects that might affect employee performance were not covered. Based on these results, it is recommended that companies strengthen the digital competence of their leaders through relevant training and adaptation to technological developments to support seamless collaboration. SMEs are also advised to review compensation policies to better suit employee qualifications, length of service, and workload to increase work motivation. For further research, it is recommended to include other variables such as organizational culture, motivation, and career development to gain a deeper understanding of the factors that influence the performance of millennial employees. Sampling with a larger number of respondents is also recommended so that the research results can be more representative and provide more comprehensive insights into intergenerational dynamics in the workplace. With good employee empowerment, each employee can make their own decisions without violating company regulations. In addition, employees are able to organize their work well to improve their performance.

This conclusion suggests that employee empowerment can improve performance by giving them greater authority and responsibility in carrying out their work. When employees are given trust, they feel more responsible and tend to give their best performance. Thus, management needs to implement effective empowerment policies, such as training, involving employees in decision-making, and giving authority that is in accordance with their responsibilities. This study confirms the positive impact of job training, work environment, and compensation on employee satisfaction, which emphasizes the importance of strategic human resource practices. The robust measurement and structural models, supported by hypothesis testing, offer a comprehensive understanding of the relationships between the studied variables. These findings contribute to the existing literature on employee satisfaction in the SME context, providing actionable recommendations for organizations and policymakers. As the business landscape continues to evolve, these insights are critical to promoting a positive and productive work environment, which ultimately contributes to the success and sustainability of SMEs.

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