

# The Influence of Organizational Culture and Compensation on Employee Engagement: The Mediating Role of the Work Environment in the Manufacturing Industry Sector of Lampung Province

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## ABSTRACT

Employee engagement is a crucial factor in enhancing employee productivity, loyalty, and performance in the manufacturing industry. However, low levels of employee engagement remain a significant challenge, influenced by various internal organizational factors, including organizational culture, compensation, and the work environment. This condition highlights the need for research to identify the factors affecting employee engagement in the manufacturing sector in Lampung Province. This study aims to analyze the influence of organizational culture and compensation on employee engagement and to examine the mediating role of the work environment. A quantitative research approach was employed using primary data collected through questionnaires distributed to 260 employees in the manufacturing sector in Lampung Province, selected through probability sampling. The data were analyzed using Structural Equation Modeling (SEM). The findings indicate that Hypothesis 1 was not supported, as organizational culture did not have a significant positive effect on employee engagement. Hypothesis 2 was supported, showing that compensation had a significant positive effect on employee engagement. Hypotheses 3 and 4 were not supported, indicating that the work environment did not mediate the relationship between organizational culture and employee engagement or between compensation and employee engagement. Based on these findings, companies are encouraged to strengthen fair, competency-based, and performance-oriented compensation systems while maintaining organizational culture stability and improving the work environment to enhance employee engagement. Future research is recommended to investigate other factors that may influence employee engagement.

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## 1. INTRODUCTION

Human resources are widely recognized as one of the most valuable

strategic assets that determine an organization's long-term competitiveness and sustainability. In the era of globalization and

rapid technological advancement, organizations are required to strengthen not only their technological capabilities but also their human resource management (HRM) practices to maintain sustainable competitive advantage [1]. Strategic HRM extends beyond traditional personnel administration by integrating workforce planning, recruitment, employee development, performance appraisal, compensation, and employee relations to maximize organizational performance [2], [3].

Employees play a central role in organizational success because they contribute knowledge, skills, innovation, and decision-making capabilities that directly influence organizational performance and long-term sustainability [4]. Consequently, employee engagement has emerged as a critical organizational outcome because engaged employees exhibit greater enthusiasm, stronger organizational commitment, higher productivity, and increased willingness to contribute beyond formal job requirements [5], [6]. Conversely, low employee engagement has been associated with increased absenteeism, declining productivity, and higher employee turnover [7]. This issue has become increasingly critical following the Gallup State of the Global Workplace Report, which reported that global employee engagement declined from 23% in 2023 to 21% in 2024, generating an estimated productivity loss of approximately USD 438 billion worldwide [8].

Among the organizational factors influencing employee engagement, organizational culture and compensation have consistently been identified as key antecedents. Organizational culture represents a system of shared values, beliefs, and norms that shapes employees' attitudes, behaviors, and interactions within the workplace [9]. A supportive organizational culture characterized by openness, collaboration, trust, and innovation strengthens employees' emotional attachment to the organization and encourages higher levels of engagement [10]. Previous empirical studies have consistently demonstrated that organizational culture positively influences

employee engagement by enhancing employees' vigor, dedication, and absorption at work [11].

Compensation functions not only as financial remuneration but also as an important organizational mechanism through which employees perceive fairness, appreciation, and recognition for their contributions [12]. Fair, transparent, and competitive compensation systems have been shown to improve employee motivation, organizational commitment, and loyalty ([13], whereas inadequate or inequitable compensation increases dissatisfaction, turnover intention, and employee disengagement [14].

One organizational mechanism that may explain these relationships is the work environment. The work environment encompasses not only physical aspects, such as workplace safety, lighting, ventilation, cleanliness, and ergonomic facilities, but also psychosocial dimensions including communication quality, supervisory support, interpersonal relationships, and an inclusive organizational climate [15]. Rather than functioning solely as an independent determinant, the work environment may serve as a mediating mechanism through which organizational culture and compensation are translated into employees' day-to-day work experiences. Organizational values emphasizing collaboration, trust, and openness cannot effectively enhance employee engagement unless they are reflected in a supportive work environment. Similarly, equitable compensation systems may fail to strengthen employees' organizational attachment if employees experience unsafe or psychologically unfavorable working conditions. Therefore, organizational culture and compensation are expected to influence employee engagement indirectly through employees' perceptions of their work environment. Although previous studies have confirmed the direct relationships between organizational culture, compensation, and employee engagement, relatively few have investigated the mediating role of the work environment,

particularly within Indonesia's manufacturing sector.

The manufacturing sector in Lampung Province provides an important context for examining employee engagement because it is characterized by labor-intensive operations, high production targets, and demanding physical working conditions. According to the Lampung Provincial Department of Industry (2023), approximately 2,945 manufacturing companies operate across 15 regencies and municipalities, with Bandar Lampung, South Lampung, and Central Lampung accounting for the largest industrial concentrations. This rapid industrial expansion has substantially contributed to regional economic growth and employment creation; however, it has also intensified human resource management challenges. Although the Provincial Minimum Wage (UMP) increased from IDR 2,716,496 in 2024 to IDR 2,893,070 in 2025, and the Municipal Minimum Wage (UMK) in Bandar Lampung reached IDR 3,305,367, many manufacturing employees continue to perceive that their compensation remains disproportionate to their workload, particularly under shift-based production systems and physically demanding tasks (Lampung Provincial Department of Manpower, 2025). These challenges have become more pronounced as manufacturing firms face increasing production costs and market competition, forcing some companies to reduce operations or relocate production while requiring remaining employees to absorb heavier workloads. Such conditions indicate that wage adjustments alone may be insufficient to enhance employee well-being and engagement without complementary organizational strategies that improve workplace quality and employee experiences.

Preliminary observations conducted through interviews with manufacturing employees in the Panjang Industrial Area of Bandar Lampung further illustrate these organizational challenges. Several production workers reported that overtime compensation, performance incentives, and employee benefits were not fully aligned with differences in workload intensity, creating

perceptions of distributive injustice and reducing work motivation. Employees also described limited communication with supervisors, inadequate opportunities to express opinions, monotonous work routines, and unfavorable physical working conditions, including excessive workplace noise and poor ventilation. These findings suggest that employee engagement is shaped not only by compensation policies but also by organizational culture and employees' perceptions of their work environment. Existing empirical studies have consistently demonstrated that organizational culture and compensation positively influence employee engagement [16], [17]. However, most previous research has examined these relationships independently or through direct effects. Comparatively little attention has been devoted to understanding the mediating role of the work environment, particularly within Indonesia's manufacturing industry, where operational characteristics and occupational risks differ substantially from those of other sectors. Consequently, the underlying mechanisms through which organizational culture and compensation jointly influence employee engagement remain insufficiently understood.

This study addresses these theoretical and empirical gaps by proposing the work environment as a mediating mechanism linking organizational culture and compensation to employee engagement in the manufacturing sector of Lampung Province. Unlike previous studies that primarily investigated direct relationships among these variables, the present research adopts a more comprehensive framework by explaining how organizational values and compensation systems are translated into employees' day-to-day work experiences before influencing their level of engagement. The novelty of this study therefore lies in integrating organizational culture, compensation, and the work environment within a single mediation model in the context of Indonesia's manufacturing industry, which remains underrepresented in the strategic human resource management literature. The findings are expected to contribute theoretically by extending the

understanding of employee engagement mechanisms in emerging manufacturing economies and practically by providing evidence-based recommendations for managers to strengthen organizational culture, design equitable compensation systems, and create supportive work environments that foster sustainable employee engagement, organizational performance, and long-term competitiveness.

## 2. LITERATURE REVIEW

### 2.1 *Organizational Culture*

Organizational culture refers to a system of shared values, beliefs, norms, and assumptions that guides employees' behavior, interactions, and decision-making within an organization [18]. It shapes how organizational members work together, respond to internal and external challenges, and achieve organizational goals [19]. A strong organizational culture fosters employee commitment, strengthens organizational identity, and creates a positive work environment that supports organizational effectiveness and long-term competitiveness [9], [20]. In this study, organizational culture is measured using the Planned Organizational Culture Change framework developed by Tasoulis, which consists of three dimensions: shared values, change readiness, and participation and trust. These dimensions reflect the extent to which employees share organizational values, are prepared to embrace organizational change, and actively participate in organizational processes based on mutual trust [21].

### 2.2 *Compensation*

Compensation refers to all financial and non-financial rewards provided by an organization in return for employees' contributions, performance, and responsibilities [22]. Beyond serving as financial remuneration, compensation functions as a strategic human resource management practice that enhances employee motivation, job satisfaction, organizational commitment, and retention by ensuring fairness and recognition of employees' contributions [23]. In this study, compensation is measured using the multidimensional compensation framework proposed by Zayed, which comprises nine dimensions: basic salary, house rent allowance, festival allowance, medical facility, conveyance allowance, recreation allowance, transport allowance, food allowance, and other allowances [24]. These dimensions comprehensively represent both direct and indirect compensation that reflects employees' perceptions of organizational support, welfare, and fairness.

### 2.3 *Employee Engagement*

Employee engagement refers to a positive and fulfilling psychological state in which employees are emotionally, cognitively, and behaviorally connected to their work and organization, motivating them to contribute their best efforts toward achieving organizational goals (Bakker et.al.,2008). Employee engagement extends beyond job satisfaction by encompassing employees' emotional attachment, proactive behavior, and meaningful involvement in organizational

activities, thereby contributing to higher productivity, innovation, and organizational performance [26]. In this study, employee engagement is measured using the Utrecht Work Engagement Scale (UWES) developed by Mazzetti, which consists of three dimensions: vigor, referring to employees' energy, resilience, and willingness to invest effort in their work; dedication, reflecting enthusiasm, pride, inspiration, and commitment toward work; and absorption, describing employees' full concentration, immersion, and deep involvement in work activities [27].

#### 2.4 Work Environment

The work environment refers to the physical, social, and organizational conditions surrounding employees that directly or indirectly influence their attitudes, well-being, and job performance [15]. In this study, the work environment is measured using the framework developed by Prada et al., which consists of five dimensions: clarity, referring to employees' understanding of roles, responsibilities, and organizational expectations; support, reflecting the extent of managerial, coworker, and organizational assistance provided to employees; challenge, describing the degree to which work assignments encourage learning, creativity, and professional growth; productivity, representing the extent to which the work environment facilitates effective and efficient job performance; and quality, referring to

organizational conditions that enable employees to consistently produce high-quality work while maintaining physical and psychological well-being [28].

### 3. METHODS

This study employed a quantitative research design to examine the effects of organizational culture and compensation on employee engagement, with the work environment as a mediating variable, among employees in the manufacturing sector of Lampung Province, Indonesia. Quantitative research was adopted to test the proposed relationships using numerical data and statistical analysis [29]. The study population comprised manufacturing employees in Lampung Province, with a sample of 260 respondents. Respondents were selected using probability sampling with a simple random sampling technique [30]. Primary data were collected through a structured questionnaire using a five-point Likert scale, while secondary data were obtained from official reports and relevant literature [31]. The research instrument was evaluated using validity, reliability, and normality tests before hypothesis testing. Data were analyzed using Covariance-Based Structural Equation Modeling (CB-SEM) with AMOS, including confirmatory factor analysis (CFA), model fit assessment, and mediation analysis through bootstrapping [32], [33].

### 4. RESULTS AND DISCUSSION

#### 4.1 Results

##### 1. Descriptive Statistics

Descriptive statistical analysis and a Pearson correlation matrix were used as preliminary analyses to understand the data characteristics and linear relationships between variables before estimating the structural model, in accordance with the analysis stages in the covariance-based SEM approach [33].

Table 1. Descriptive Statistics

Desc.	Means	Std. Dev.	1	2	3
OC	4,34	0,90			
C	4,35	0,82	0,633**		
WE	4,38	0,79	0,129**	0,937**	
EE	4,47	0,70	0,004*	1,227**	0,199**

- Note: \*\* Correlation is significant at the 0.01 level (2-tailed); \* Correlation is significant at the 0.05 level (2-tailed); N = 260.
- Note: OC (Organizational Culture), C (Compensation), WE (Work Environment), EE (Employee Engagement)

Table 1 presents the descriptive statistics and Pearson correlation matrix for the study variables. Overall, all variables exhibited relatively high mean scores, indicating that respondents perceived organizational culture, compensation, work environment, and employee engagement positively. The standard deviation values were lower than their corresponding means, suggesting relatively low variability and homogeneous responses. The correlation analysis also revealed positive associations among the study variables, providing preliminary evidence that organizational culture, compensation, work environment, and employee engagement are significantly related. These findings support the

appropriateness of proceeding with the Structural Equation Modeling (SEM) analysis.

## 2. Validity and Reability

The measurement model was evaluated using standardized factor loadings, Composite Reliability (CR), and Average Variance Extracted (AVE). As presented in Table 2, all measurement items achieved standardized factor loadings above the recommended threshold of 0.50, ranging from 0.522 to 0.962 for organizational culture, 0.590 to 0.845 for compensation, 0.583 to 0.794 for work environment, and 0.622 to 0.781 for employee engagement. These results indicate that all indicators adequately represented their respective latent constructs, confirming satisfactory convergent validity.

Table 2. Results of Validity Test

Variable	Indicator	Standardized Loading
OC	X1_1	0,951
	X1_2	0,962
	X1_3	0,900
	X1_4	0,618
	X1_5	0,602
	X1_6	0,803
	X1_7	0,596
	X1_8	0,522
C	X2_1	0,627
	X2_2	0,590
	X2_3	0,845
	X2_4	0,739
	X2_5	0,754
WE	M1	0,794
	M2	0,583
	M3	0,777
	M4	0,786
	M5	0,666
	M6	0,634
	M7	0,640
	M8	0,601
	M9	0,765

	M10	0,771
EE	Y1	0,690
	Y2	0,692
	Y3	0,622
	Y4	0,781
	Y5	0,746

Source: AMOS Output (2026)

Furthermore, the reliability assessment demonstrated that all constructs satisfied the recommended criteria, with Composite Reliability (CR) values exceeding 0.70 and Average Variance Extracted (AVE) values exceeding 0.50 (Table 3). Specifically, organizational culture, compensation, work environment, and employee engagement

achieved CR values of 0.908, 0.834, 0.720, and 0.828, respectively, while all AVE values ranged from 0.643 to 0.921. These findings confirm that the measurement model possesses adequate internal consistency and convergent validity, indicating that all constructs are reliable and suitable for subsequent structural model analysis.

Table 3. Results of Reability Test

Variable	Composite Reliability (CR)	AVE
OC	0,908	0,759
C	0,834	0,643
WE	0,720	0,921
EE	0,828	0,830

Source: AMOS Output (2026).

### 3. Normality Test

Normality was assessed using the skewness, kurtosis, and critical ratio (c.r.) values generated by AMOS.

Table 4. Results of Normality Test

Assesment	Minimum	Maximum
Skewness	-1,454	-0,572
Kurtosis	1,098	1,995
Multivariate c.r	-	87,011

Source: AMOS Output (2026).

As shown in Table 4, most indicators exhibited skewness and kurtosis critical ratios exceeding the recommended threshold of  $\pm 2.58$ , indicating deviations from univariate normality (Hair et.al., 2021). Furthermore, the multivariate kurtosis value was 442.356 with a critical ratio of 87.011, confirming that the data did not satisfy the assumption of multivariate normality. To address this issue, the subsequent Structural Equation Modeling (SEM) analysis was performed using the Bollen–Stine bootstrap procedure, which provides robust parameter estimates and significance tests when the assumption of multivariate normality is violated.

### 4. Structural Model Assesment

The structural model was estimated using Covariance-Based Structural Equation Modeling (CB-SEM) with AMOS to evaluate the hypothesized relationships among organizational culture, compensation, work environment, and employee engagement. Figure 1 presents the final structural model, while the model fit indices are summarized in Table 5. The structural model was subsequently evaluated to determine whether it adequately represented the observed data before testing the proposed hypotheses.

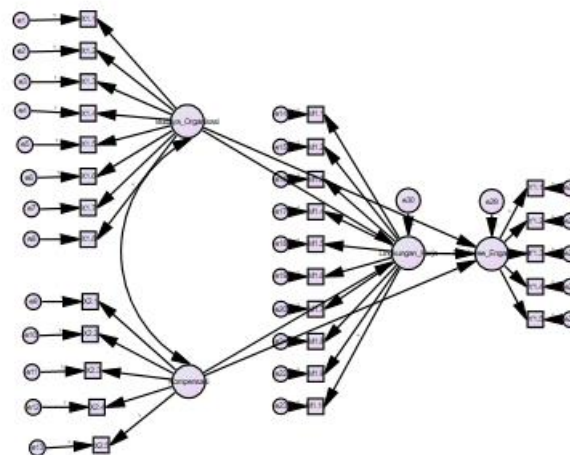


Figure 1. Research Result Model

5. Goodness-of-Fit Assesment

Table 5. Results of Goodness-of-Fit Assesment

Fit Index	Recom. Value	Model Value	Assesment
Chi-square (CMIN)	Lower is better	2198,164	Poor Fit
Probability (p-value)	≥ 0,05	0,000	Poor Fit
CMIN/ DF	≤ 3 (≤ 5 (acceptable))	6,390	Marginal Fit
GFI	≥ 0,90	0,734	Marginal Fit
AGFI	≥ 0,90	0,689	Marginal Fit
RMSEA	≤ 0,08	0,119	Marginal Fit
NFI	≥ 0,90	0,882	Marginal Fit
TLI	≥ 0,90	0,894	Marginal Fit
CFI	≥ 0,90	0,906	Fit

Source: AMOS Output (2026).

Table 5 presents the goodness-of-fit indices of the proposed structural model. Although the Chi-square statistic and probability value did not meet the recommended thresholds, these indices are highly sensitive to sample size and model complexity (Hair et.al., 2021). The incremental fit indices demonstrated acceptable model fit, with CFI = 0.906, while NFI = 0.882 and TLI = 0.894 were within the acceptable range. Although CMIN/DF (6.390), GFI (0.734), AGFI

(0.689), and RMSEA (0.119) indicated a marginal fit, the overall model was considered acceptable based on the multiple goodness-of-fit criteria recommended for complex SEM models (Hair et.al., 2021). Therefore, the structural model was deemed adequate for subsequent hypothesis testing and mediation analysis.

6. Results of Hypothesis Test

Table 6. Results of Direct Hypothesis Testing

Path	B	C.R	P-Value	Decision
Organizational Culture → Employee Engagement	0,004	0,037	0,970	Not Supported
Compensation → Employee Engagement	1,116	2,437	0,015	Supported

Source: AMOS Output (2026).

The structural relationships were examined using Covariance-Based Structural Equation Modeling (CB-SEM) with AMOS. The significance of the proposed hypotheses as evaluated based on the standardized path coefficients, critical ratio (CR), and p-values. As presented in Table 6, culture did not have a significant effect on employee engagement ( $\beta = 0.004$ ,  $CR = 0.037$ ,  $p = 0.970$ ), indicating that H1 was not supported. In contrast, compensation had a positive and significant effect on employee engagement ( $\beta = 1.116$ ,  $CR = 2.437$ ,  $p = 0.015$ ), supporting H2. These findings suggest that employees who perceive compensation as fair and adequate tend to exhibit higher levels of employee engagement, whereas organizational culture alone was insufficient to directly influence employee engagement in the investigated manufacturing context.

## 7. Mediation Analysis

The mediating role of the work environment was assessed using the Bollen–Stine bootstrap procedure. As shown in Table 7, the indirect effect of organizational culture on employee engagement through the work environment was not significant (indirect effect =  $-0.026$ ,  $p = 0.150$ ), indicating that H3 was not supported. Likewise, the indirect effect of compensation on employee engagement through the work environment was also insignificant (indirect effect =  $-0.187$ ,  $p = 0.425$ ), resulting in H4 not being supported. These results indicate that the work environment did not mediate the relationships between organizational culture, compensation, and employee engagement in this study.

Table 7. Results of Mediation Analysis

Path	Indirect Effect	P-Value	Decision
Organizational Culture → Work Environment → Employee Engagement	-0,026	0,150	Not Supported
Compensation → Work Environment → Employee Engagement	0,187	0,425	Not Supported

Source: AMOS Output (2026).

## Discussion

The findings of this study provide important insights into the determinants of employee engagement in the manufacturing sector of Lampung Province. The results indicate that organizational culture did not have a significant direct effect on employee engagement, whereas compensation exerted a positive and significant influence. Furthermore, the work environment did not mediate the relationships between organizational culture and employee engagement or between compensation and employee engagement. These findings suggest that employee engagement in the manufacturing sector is influenced more strongly by employees' perceptions of fair compensation than by organizational culture or the indirect mechanism of the work environment. This finding is consistent with the Social Exchange Theory, which posits that employees reciprocate organizational support and fair treatment through positive work

attitudes and behaviors, including higher levels of engagement [26].

The insignificant relationship between organizational culture and employee engagement indicates that organizational values alone may be insufficient to foster employees' psychological attachment to their work. Although respondents perceived organizational culture positively, such values may function primarily as operational guidelines rather than as sources of motivation and emotional commitment. This finding supports the study of Afrifa, which reported that the influence of organizational culture on employee engagement depends on the specific type of organizational culture adopted [34]. Likewise, Cristina Reis et al. argued that organizational culture affects employee engagement indirectly through employees' psychological experiences, such as authenticity, rather than through a direct relationship [35]. Considering the characteristics of the manufacturing industry,

where work is largely driven by standardized procedures, production targets, and operational efficiency, employees may place greater emphasis on immediate job demands than on organizational values, thereby reducing the direct contribution of organizational culture to employee engagement.

In contrast, compensation was found to be a significant predictor of employee engagement, suggesting that employees who perceive their compensation as fair and commensurate with their contributions are more likely to demonstrate greater enthusiasm, commitment, and involvement in their work. This finding is in line with Lamparska, who emphasized that fair compensation promotes positive employee attitudes and organizational commitment [36]. Similarly, Pranita Sari found that recognition and rewards enhance work engagement by increasing employees' motivation and sense of appreciation [37]. These findings are also consistent with Equity Theory, which argues that employees evaluate the fairness of rewards relative to their contributions, and perceived equity enhances motivation and organizational commitment [21]. In labor-intensive manufacturing organizations, where employees face demanding workloads, shift systems, and strict production targets, compensation appears to represent a more immediate and meaningful organizational resource than organizational culture in shaping employee engagement.

The mediation analysis further revealed that the work environment did not significantly mediate the effects of organizational culture and compensation on employee engagement. Although respondents reported favorable perceptions of their work environment, it did not function as the mechanism through which organizational culture and compensation influenced employee engagement. One possible explanation is that the work environment had already reached a relatively high and homogeneous level across the participating organizations, resulting in limited variability to explain differences in

employee engagement. This finding is partially consistent with Obeng, who suggested that organizational resources may influence employee engagement directly without necessarily operating through mediating mechanisms [38]. Similarly, Saleem et al. found that the mediating role of the work environment becomes more evident when organizations experience unfavorable working conditions [39]. In organizations where employees already perceive the work environment positively, improvements in the work environment may no longer substantially increase employee engagement.

Overall, the findings suggest that manufacturing companies should prioritize compensation strategies that are fair, competitive, and aligned with employees' responsibilities to strengthen employee engagement. While organizational culture and the work environment remain important organizational resources, their contributions appear to depend on contextual and psychological factors beyond those examined in the present study. Therefore, future research should incorporate additional mediating or moderating variables, such as perceived organizational support, psychological empowerment, job satisfaction, leadership style, or authenticity, to develop a more comprehensive understanding of employee engagement within manufacturing organizations. Such investigations would contribute to the advancement of strategic human resource management literature while providing practical guidance for organizations seeking to enhance employee engagement and long-term organizational performance.

## 5. CONCLUSION

This study examined the effects of organizational culture and compensation on employee engagement, with the work environment as a mediating variable, among employees in the manufacturing sector of Lampung Province. The findings revealed that organizational culture did not have a significant effect on employee engagement, whereas compensation positively and

significantly influenced employee engagement. In addition, the work environment did not mediate the relationships between organizational culture and employee engagement or between compensation and employee engagement. These findings suggest that fair and appropriate compensation is a more influential factor in enhancing employee engagement than organizational culture or the indirect role of the work environment. The study contributes to the strategic human resource management literature by highlighting the importance of compensation as a key organizational resource for strengthening employee engagement in the manufacturing sector.

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