Ethic Leadership, Compensation for Work Engagement with Satisfaction as a Mediating Variable

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Abstract. In the progress of an organization it is necessary to have employee involvement so that the wheels of the company become more solid and stronger. For employees to be involved in work, very good supporting factors are also needed, such as ethical leadership, compensation and employee satisfaction. This study tries to examine the relationship of these variables by making satisfaction a mediating variable. This quantitative research was conducted using 170 respondents at a trading company in Jakarta using the Structural Equation Model (SEM) method. This study found that Compensation and Satisfaction have a positive effect on Work Engagement, Ethical Leadership does not have a positive effect on Work Engagement. Besides that, the indirect effect of satisfaction significantly mediates ethical leadership and compensation on Work Engagement. Suggestions for future researchers to develop this research by adding other variables that can affect work engagement.

Keywords: Work Engagement, Satisfaction, Ethical Leadership, Compensation.

A. INTRODUCTION

Every organization has a goal not only to select the right people for the right jobs, but also to attract and retain them in the organization. Employees are the main asset of every organization (Siddiqui and Sahar, 2019). The superior ability of employees is not a reference for surviving in competition, this is what underlies an organization to need employees who are well involved in their work (Didik and Herawati, 2021). Work engagement is a phenomenon that has occurred in several manufacturing and service industries. Because of the great potential of Work Engagement that drives organizational prosperity, organizations pay attention to employee Work Engagement (Wood et al., 2020). Apart from that, it is also necessary for organizations to see the impact that can affect work engagement such as leadership within the organization, compensation, and even employee satisfaction which can affect employee involvement in their work.

The leadership factor is also a very important factor, because there is no single organization that does not have a leader, because without a leader, the organization moves irregularly and seems to have no purpose (Rozi et al., 2021). It is important that leaders need to find ways to involve followers to make various efforts and their abilities to contribute to the organization (Book et al., 2019). Each leader has their own leadership style, approach and practice of leadership, and they should work to strengthen and build on their unique approach, rather than trying to follow a strict model of how to lead properly (Martin, 2020). One such leadership style is Ethical Leadership which emphasizes an ethical view of leadership which is identified as an important antecedent to various types of extra position attitudes. One of the central predictions of ethical leadership is being able to bridge two-way communication for employees, so that employees are involved with the organization (Tunjung et al., 2020). Besides being able to increase employee satisfaction, ethical leadership can also help increase employee involvement so that organizations can run dynamically (Reny et al., 2021).
In addition to leadership, one way of organizational management in increasing employee involvement can be through compensation. According to Robianto et al. (2020) a good organization must have a good compensation management system and be able to increase work engagement within the organization. Compensation can also be given in the form of recognition or appreciation for the work of employees and can increase work engagement with the company (Robianto et al., 2020). Compensation is important for employees as individuals because the amount of compensation reflects the size of their work including the employees themselves, their families and communities (Fauzin, et. al., 2020). Compensation is a factor that greatly influences employees. Therefore, it is hoped that companies can provide fair compensation so that employee involvement increases in achieving company goals (Reny et al., 2021). The compensation system in organizations is used to motivate employees both in terms of supervision, work performance, and commitment to the company (Ali, 2020). Fair forms of compensation can ultimately provide satisfaction to employees.

Employee job satisfaction is a noble goal of the organization, where satisfaction will have a very extraordinary impact on the organization. In addition, job satisfaction is an important thing that can build organizational psychology so that it will influence organizational behavior (Miao et al., 2017). Job satisfaction can also prevent employees from leaving the organization, besides that it is very relevant in increasing organizational profitability and productivity through performance and work engagement (Yu et al., 2020). Employee work engagement reflects individual involvement and satisfaction, as well as enthusiasm for work. Employees who have a high level of engagement will have a high emotional attachment to the organization, so that it will have an effect on completing work and tend to have quality work that satisfies employees (Robianto et al., 2020). According to Ampofo (2020) explains that when employees feel that the organization has provided them with resources to increase their level of engagement in the organization, they tend to reciprocate by showing positive attitude results, such as job satisfaction and work engagement. Given the amount of accrued work resources (Zhang et al., 2019), highly engaged employees are unlikely to show negative attitudes such as job disengagement and job dissatisfaction, because they may perceive these attitudes as morally wrong after the help offered by the company. (Ampofo, 2020).

Based on the results of research conducted by previous researchers regarding ethical leadership, such as research conducted by Ampofo (2020); Buonomo et al. (2021); Wong et al. (2020); Freire and Bettencourt (2020) to find out the relationship between ethical leadership and job satisfaction, research related to compensation such as that carried out by Fauchil et al. (2020); Robianto et al. (2020) to find out the relationship between Compensation and Job Satisfaction, research related to ethical leadership, and work engagement such as research (Adnan et al., 2020; Buonomo et al., 2021; Dede, 2020; Mostafá and El-Motalib, 2020; Özsunğur, 2020, 2020; Santiago et al., 2021; Sarwar et al., 2020). Research related to Compensation, to Work Engagement such as research (Ashraf, 2020; Fauchil et al., 2020; Robianto et al., 2020). Research related to Job Satisfaction, on Work Engagement, such as research conducted by (Chan et al., 2020); (Yalabik et al., 2017); (Håvold et al., 2021); (Bayona et al., 2020); (Manalo, 2020); (Yu et al., 2020).

The research above showed mixed results. However, previous researchers only discussed the relationship between ethical leadership, compensation, job performance and work engagement in the context of overseas companies, besides that the interfaces mentioned in previous research were not tested in the Indonesian context. So this research will explore the impact of Ethical leadership, Compensation and Work Engagement with the 2022 research period. The mediating effect of Job Satisfaction on the relationship between Ethical leadership, Compensation on Work Engagement is also examined in this study. So far, there has been no empirical work looking at this relationship in the Indonesian context. In addition, this research
is important to do in the trading sector in Indonesia. For this reason, all potential opportunities need to be captured and utilized to achieve a better Work Engagement.

From the results of the elaboration above, the purpose of this study is to test and find out how the influence formed from the relationship between Ethical leadership, Compensation on Work Engagement and Job Satisfaction as a mediating variable. In addition, this research serves as material for evaluation and correction for the management of manufacturing companies in the West Java Region so that they can see the influence of ethical leadership, compensation on work engagement and job satisfaction as mediating variables in companies and can determine appropriate policies. Whereas for other parties related to this research, it can be used as reference material and analysis and learning to measure the influence of variables, so that it can provide great benefits for the community.

B. LITERATURE REVIEW

1. Ethical Leadership

Ethical leadership according to Özsungur (2020) is based on two fundamental theories as follows: social learning and social exchange. According to social learning theory, followers imitate their leaders and are influenced by them through observation. Social learning theory helps in understanding the interrelationships that leaders and their followers have. Meanwhile, social exchange theory, based on an individual's expectation of reciprocal exchange in social relations, reveals engagement behavior. Social exchange is an important balancing factor in organizational-employee relations, such as career development, self-realization behavior, turning opportunities into benefits and fair distribution of resources (Saks, 2006; Schaufeli, 2006; Özsungur, 2020). According to Faisal and Gusti (2019) ethical leadership is a moral leadership concept referring to using managerial roles and leadership positions to promote ethics in the workplace through modeling ethical behavior, rules and communication of ethical standards, and using rewards and sanctions to ensure that ethical standards are applied. well.

The theoretical framework that underlies this research is Avolio et al.'s authentic leadership theory (2004) in Wong et al. (2020) who assert that authentic leaders are able to influence work attitudes (e.g., work engagement and job satisfaction) of their followers in beneficial ways. Moreover, authentic leaders aspire to foster authenticity among followers and build a more positive work climate (Wong et al., 2020). The four main principles of authentic leadership according to Wong et al. (2020) are: (1) self-awareness; (2) relational transparency; (3) internalized moral perspective; and (4) balanced processing. Meanwhile, the four main dimensions of authentic leadership according to Nejati et al. (2021), namely Care, Trust, Integrity, and Decision.

2. Compensation

Compensation describes all forms of financial returns and tangible services and benefits employees receive as part of a work relationship. According to Didik and Herawati (2021) Compensation can be interpreted as income earned in return for employee contributions to the organization in the form of money, direct goods and indirect goods. Compensation can be obtained in various forms such as allowances, bonuses for achievement, incentives, daily wages and salaries per period as remuneration for employees who have carried out their profession (Educate and Herawati, 2021). According to Wilson et al. (2021) compensation can be defined as the coordination of company resources through planning, organizing, directing and controlling all financial rewards and services as well as tangible benefits that employees receive as part of their work relationship (Wilson et al., 2021). Meanwhile, according to Setyawan et al. (2021). Compensation can also be interpreted as an award given to employees
who influence the employee's work engagement. Compensation that is given fairly can improve the quality of employee work engagement (Setyawan et al., 2021).

3. Employee Satisfaction

Kreitner and Angelo (2003) describe that job satisfaction is an emotional response to various aspects of work. This means that job satisfaction is not a single concept and is the main determinant of work environment assessment (Nair et al., 2017). Employee satisfaction can be defined as a positive emotional response resulting from evaluating employee work as achievement or fulfillment of important work values (Ampofo, 2020). Job satisfaction as positive feedback is the concern of a person's work which is the result of evaluating his characteristics. Alotaibi (2001); Parnell and Rick Crandall (2003) and Lovett et al. (2004) describe job satisfaction as a hot topic because most of the literature on industrial/organizational psychology, organizational behavior, and social psychology includes this factor as a research focus.

French et al (2020) suggested that job satisfaction has two dimensions: an affective component and a non-affective (cognitive) component. The affective component refers to the emotional state of the employee, and the non-affective (cognitive) component refers to the satisfaction associated with evaluating task performance. According to Munir et al (2012) there are several dimensions of job satisfaction that can be used to reveal important characteristics about work, where people can respond. That dimension is 1). the work itself (work it self), 2). supervisor (supervision), 3). co-workers (workers), 4). promotion (promotion), 5). salary/wages (pay).

4. Work Engagement Karyawan

There are several conceptualizations of work engagement, one of which can be found according to Khan (1990). He defines personal involvement as “the utilization of organizational members for their job roles,” in addition, he explains that “in work engagement, people employ and express themselves physically, cognitively, and emotionally during role performance” (Kahn, 1990). Work engagement is a positive feeling associated with a situation characterized by sincerity, dedication and appreciation (Robianto et al., 2020). Meanwhile, employee work engagement involves all employees regardless of level in the process of making decisions and solving problems within the organization. Employee Work Engagement has a positive meaning of compatibility between employees and their profession (Educate and Herawati, 2021). Employee Work Engagement can be formed if there is a sense of conformity for each individual in the organization which is influenced by positive and negative situational influences both from the profession and between employees. Employee work engagement increases when employees have good job satisfaction. This sense of conformity can give employees the decision to stay (Reny et al, 2021).

Work engagement is a positive, motivating, and work-related state of mind characterized by passion, dedication, and absorption (Mostafa and El-Motalib, 2020). Based on Kahn's theory (1990), Work Engagement is a motivational concept, because employees allocate personal resources for their work tasks (Decuyper and Schaufeli, 2020). According to Kahn (1990), work engagement means that employees (1) are physically engaged, (2) cognitively alert, and (3) empathetically connected to others on the work floor. According to Decuyper and Schaufeli (2020) this conceptualization and proposes that Work Engagement has three dimensions: physical, cognitive, and emotional components. Meanwhile Ampofo (2020) proposes that Work Engagement has three dimensions Eusthatic, Inspirational and Proud.
5. Relationship of Ethical Leadership to Employee Satisfaction

Ethical leadership has a positive effect on employee satisfaction because the leader's character influences employee behavior. If the organization forms ethical leaders then it creates a model of collaborative interaction between leaders and employees (Bayu and Wayan, 2017). Leaders maintain positive relationships with employees, listen to employees, communicate with employees, look after each other's interests and make fair decisions. Therefore, the formation of the character of an ethical leader can improve the quality of employee trust and the quality of employee satisfaction. The stronger the implementation of ethical leadership carried out by leaders will increase employee satisfaction. This research is in accordance with research conducted by (Ampofo, 2020); (Buonomo et al., 2021); (Wong et al., 2020); (Freire and Bettencourt, 2020); Ren and Chadee (2017); Rizwan et al. (2017) which states that ethical leadership has a positive effect on employee satisfaction. This is also in accordance with research conducted by Alam et al. (2021) which states that ethical leadership has a positive effect on employee satisfaction. Based on this explanation, the initial hypothesis that can be proposed is as follows:

H1: Ethical leadership has a positive effect on job satisfaction.

6. Relationship of Compensation to Employee Satisfaction

Compensation can be interpreted as the return provided by the organization for employee contributions. Compensation in the form of financial and non-financial has an influence on employee satisfaction. Compensation that is fair and in accordance with employee contributions encourages increased job satisfaction (Sugiono et al., 2021). The satisfaction obtained by employees reflects the compensation received compared to the workload provided by the company. The higher the compensation provided by the company, the more satisfied the employees are with the company. This is in accordance with research conducted by Fauchil et al. (2020); Robianto et al. (2020) which states that compensation has a positive effect on employee satisfaction. Based on this explanation, the initial hypothesis that can be proposed is as follows:

H2: Compensation has a positive effect on job satisfaction

7. The Relationship of Ethical Leadership to Work Engagement

The relationship between ethical leadership and work engagement explains that when employees are treated in a fair and respectful manner by their leaders, they tend to think about their relationship with their leaders in terms of social exchanges rather than economic exchanges. by putting extra effort into their work, through increasing work dedication and being willing to become more actively involved in work. When an employee has the freedom to make decisions and take actions without consulting a supervisor all the time, it can result in job engagement.

Bellingham, (2003) states that ethical leaders want to empower employees through training and support and they want to give freedom to their employees to show initiative through responsibility and authority. The stronger the ethical leadership style, the stronger the employee's work engagement. This is in accordance with research conducted by (Adnan et al., 2020; Buonomo et al., 2021; Dede, 2020; Mostafa and Abed El-Motalib, 2020; Özsungur, 2020, 2020; Santiago et al., 2021; Sarwar et al., 2020), which confirms that ethical leadership has a positive relationship with work engagement. Based on this explanation, the initial hypothesis that can be proposed is as follows:

H3: Ethical leadership has a positive effect on Work Engagement.
8. **Relationship of Compensation to Employee Work Engagement**

Compensation can be interpreted as the return provided by the organization for employee contributions. Compensation in the form of financial and non-financial has an influence on employee work engagement (Fauzin, et. al., 2020). High and fair compensation in accordance with employee contributions encourages increased job satisfaction (Sugiono et al., 2021). This compensation raises the employee's work engagement. This explains that the higher the suitability of compensation received by employees, the employee's work engagement also increases. This is in accordance with research conducted by Ashraf (2020); Fauchil et al. (2020); Robianto et al. (2020) which states that compensation has a positive effect on employee work engagement. Based on this explanation, the hypothesis can be put forward as follows:

**H4**: Compensation has a positive effect on Work Engagement.

9. **The Relationship between Employee Satisfaction and Employee Work Engagement**

High levels of employee work engagement can lead to greater commitment and satisfaction, lower absenteeism and quitting rates, improved health and well-being, and performance in better roles and extra roles (Manalo, 2022.). A person with a high level of job satisfaction has positive feelings about work engagement, while a person who is dissatisfied has negative feelings about work engagement. This is in accordance with research conducted by Chan et al. (2020); Yalabik et al., (2017); Hävold et al., (2021); Bayona et al., (2020); Manalo,(2020); Yu et al. (2020) which states that employee satisfaction has a positive effect on employee work engagement. Based on this explanation, the hypothesis can be put forward as follows:

**H5**: Job satisfaction has a positive effect on Work Engagement

10. **Mediation of Employee Satisfaction in Relationships with Ethic Leadership and Compensation for Employee Work Engagement**

Leadership and compensation are factors that can increase employee satisfaction. So it is important for employees to understand the factors that influence job satisfaction (Cheung, Wu, & Chi, 2019; Ferreira, Martinez, Lamelas, & Rodrigues, 2017). When employees become satisfied with their leaders and the resources they receive from the organization, they feel obligated to pay with a positive attitude towards the organization (Haar & Spell, 2004; Weng, McElroy, Morrow, & Liu, 2010). This positive attitude is shown by the existence of a strong work engagement towards the organization. When employees are involved in their work, they tend to develop greater emotional attachment to the organization when they realize that the organization helps them obtain accumulated work resources (Ibrahim, Suan, & Karatepe, 2019). Based on this explanation, the hypothesis can be put forward as follows:

**H6**: Employee satisfaction mediates the relationship between ethical leadership and Work Engagement.

**H7**: Employee satisfaction mediates the relationship between compensation and Work Engagement.

Based on the hypothesis proposed, the research framework that the researcher proposes is as follows:
C. METHOD

1. Measurement

This research is a causal research between the independent variables (Independent Variable), namely Ethical Leadership, Compensation and Employee Satisfaction to the dependent variable, namely Work engagement. Measurements in this study used 2 independent variables, namely Ethical Leadership, using dimensions according to (Nejati et al., 2021) and indicators of 8 questions, while Compensation used dimensions according to Negal et al 2014 and indicators of 13 questions. For the Work engagement variable, use the dimension according to (Ampofo, 2020) and an indicator of 3 questions, mediation for Employee Satisfaction using the dimension according to (Ampofo, 2020) and an indicator of 6 questions. In this measurement the researcher will distribute questionnaires using a Likert scale of 1-5 where score 1 is Strongly disagree, score 2 Disagree, score 3 is neutral and score 4 agree and score 5 strongly agree.

2. Population and Sample

The population is a generalization area consisting of objects/subjects that have certain qualities and characteristics determined by the researcher to be studied and then drawn conclusions. The population of respondents in this study were employees of PT. Antero Sahid is useful in the DKI Jakarta area, with a total of 170 people. The sampling technique used in this study used a purposive sampling technique. This purposive sampling technique was determined by gender, education, position and working period of more than 1 year. The reason for using this purposive sampling technique is because it is suitable for use in quantitative research or research that does not generalize. According to (Hair et al., 2014) the number of samples will be determined based on the results of the minimum sample calculation, where the determination of the minimum sample size for SEM is: (Number of indicators + number of latent variables) x (5 times) Based on these guidelines, the maximum number of samples for this study are: Maximum sample = (30 + 4) x 5 = 170 respondents Based on the formula above, the minimum sample size in this study is 170 respondents.

3. Data Analysis

Data analysis used Structural Equation Models (SEM) analysis, where SEM is a multivariate statistical technique that combines all aspects of factor analysis (factor analysis), path analysis (path analysis) and regression (regression) so that the results of the analysis become more complete. The purpose of PLS-SEM is to develop a theory or build a theory or prediction orientation (Ghozali & Latan, 2015). One of the other advantages of SEM is the
ability to model constructs as latent variables or variables that are not measured directly, but are estimated in the model of the variables that are measured and which are assumed to have a relationship with these latent variables.

Data processing and analysis using SmartPLS software. SmartPLS uses the bootstrapping or random multiplication method. Therefore the assumption of normality will not be a problem. In addition, by doing bootstrapping, SmartPLS does not require a minimum number of samples, so it can be applied to research with small sample sizes. PLS analysis is carried out in three stages, namely outer model analysis, inner model analysis, and hypothesis testing. Outer model analysis is carried out to ensure that the measurement used is feasible to be used as a measurement (valid and reliable). The outer model analysis defines how each indicator relates to its latent variables.

The test was carried out on the outer model, namely convergent validity where if it is correlated > 0.6, it is the factor loading value on the latent variable with its indicators, while the outer loading value between 0.5 - 0.6 is considered fulfilled (Hair et al., 2017). Then discriminant validity is to assess the validity of the construct by looking at the AVE value. The model is said to be good if the AVE value of each construct is > 0.5 (Ghozali & Latan, 2015). Furthermore, composite reliability with measurements if the minimum value of reliability is > 0.6, then the value of the construct has a reliability value that has been fulfilled. The reliability test was strengthened by Cronbach alpha with an expected value of > 0.6 for all constructs. Hypothesis testing can be seen from the t-statistical value and probability value (Hussein, 2015). To test the hypothesis using statistical values, for alpha 5% the value of the t-statistic used is 1.96. So that the criteria for accepting/rejecting the hypothesis are that Ha is accepted and H0 is rejected when the t-statistic is > 1.96. To reject/accept the hypothesis using probability, Ha is accepted if the p value <0.05.

D. RESULT AND DISCUSSION

1. Descriptive Analysis

Based on the respondent’s profile, 91 people or 54% are male and 79 or 46% are female, of which 60 people or 35% are aged <25 years, 75 people or 44% are aged 25-30 years, 14 people or 8% aged 31-35 years, 20 people or 12% aged 36-40 years and the remaining 1 person or 1% aged > 40 years. The status of the respondents is 8 people or 5% with manager positions, 27 people or 16% are supervisors, 115 people or 68% are staff, and the remaining 20 people or 12% are other positions. In terms of education, 64 people or 38% had completed high school-diploma education, 105 people or 62% had a bachelor’s degree, only 1% had a master’s degree. The work experience of the majority of the respondents themselves was more than 1-5 years by 61% and the rest were between < 1 year 19%, 6-10 years 7% and above 10 years 13%.

2. Outer Model Testing

Hair et al. (2017) The outer model analysis stage is carried out to ensure that the measurement used is feasible to be used as a valid and reliable measurement. This model analysis specifies the relationship between latent variables and their indicators or the outer model defines how each indicator relates to its latent variables (Hussein, 2015). According to Hair et al. (2017) Outer model analysis can be seen from the convergent validity value where if it correlates > 0.6, it is the factor loading value on the latent variable with its indicators, while the outer loading value between 0.5-0.6 is considered fulfilled. Discriminant validity, composite reliability, while Cronbach's alpha is used to test a variable that can be declared reliable if the Cronbach's alpha value shows > 0.6. Furthermore, testing the significance of the formative indicators with the weight values of the formative indicators with their constructs must be significant. This study shows that all indicators have a
value of > 0.5, which can be concluded that the indicators meet the requirements of the outer loading test. Based on the test results, it shows that all outer loading indicators are > 0.5 and can then be tested for validity and reliability.

3. Validity Test

Validity refers to whether a test measures what it aims to measure. For example, a valid driving test should include a practical driving component and not just a theoretical test of the rules of driving. In this study the validity test consists of:

a. Convergent Validity Test

The convergent validity test on the model is seen from its AVE value. A model reviewed has met convergent validity if it has a value > 0.5. In this research model, the Average Variance Extracted (AVE) value shows that the Compensation variable shows a value of 0.664, Employee Satisfaction has an AVE value of 0.798, and the next test can be carried out.

b. Discriminant Validity Test

Discriminant validity is a subtype of construct validity. In other words, it shows you how well a test measures the concept it was designed to measure. Discriminant validity specifically measures whether constructs that theoretically should not be related to each other are, in fact, unrelated. The test results are presented in the following table:

<table>
<thead>
<tr>
<th></th>
<th>Compensation</th>
<th>Employee Satisfaction</th>
<th>Ethical Leadership</th>
<th>Work Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td>0.815</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Satisfaction</td>
<td>0.877</td>
<td>0.893</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethical Leadership</td>
<td>0.819</td>
<td>0.877</td>
<td>0.770</td>
<td></td>
</tr>
<tr>
<td>Work Engagement</td>
<td>0.890</td>
<td>0.860</td>
<td>0.761</td>
<td>0.822</td>
</tr>
</tbody>
</table>

Fornell-Larcker is an approach used to assess discriminant validity. As for how to read it by reading diagonally between variables or constructs. In the Fornell-Larcker output, it can be seen that the values between variables are diagonally compared to other values > 0.6. This means that all research variables have fulfilled the validity test and can be continued with the reliability test.

4. Reliability Test

According to Hair et al. (2017) that the minimum values for Cronbach Alpha (0.6), rho-A (0.6) and Composite Reliability (0.6). The output value of the reliability test shows that for the Compensation variable the Cronbach Alpha value is 0.949, the rho-A is 0.965 and the Composite Reliability is 0.960. Then the variable Satisfaction with a Cronbach Alpha value of 0.875, rho-A of 0.889 and Composite Reliability of 0.922, then the ethical leadership variable with a Cronbach Alpha value of 0.901, rho-A of 0.917 and Composite Reliability of 0.920 and the Work Engagement variable with a Cronbach Alpha value of 0.902, rho-A of 0.913 and Composite Reliability 0.925. Each variable has a value that exceeds the threshold of each criterion (Cronbach Alpha, rho-A and Composite Reliability). This shows that the research model has fulfilled the validity and reliability tests so that it can be continued in the next model estimation.
5. **Inner Model Test**

The inner model analysis describes the relationship between latent variables based on substantive theory. The inner model analysis can be evaluated by using the R-square for the dependent construct, the Stone-Geisser Q-square test for predictive relevance and the t test and the significance of the structural path parameter coefficients. In testing the hypothesis it can be seen from the value of the t-statistic and the probability value. For hypothesis testing, namely by using statistical values, for 5% negligence the t-statistic value used is 1.96. So that the criteria for accepting/rejecting the hypothesis are that Ha is accepted and H0 is rejected when the t-statistic is > 1.96. To reject/accept the hypothesis using probability, Ha is accepted if the p value < 0.05 (Hussein, 2015).

6. **Structural Model Evaluation (Inner Model)**

a. **Coefficient of Determination**

As for the data analysis, it will be presented for the first time regarding the results of the structural model test (inner model) on the coefficient of determination (R2). In determining the value of the coefficient of determination / R-square (R2), the value ranges from 0 to 1 and is divided into three assessment criteria, the first for the value of R-square (R2) (1 - 0.75) including being substantial / strong, which the second is for the R-square value (R2) (0.74 – 0.5) including moderate / medium, the third for the R-square value (R2) (0.49 – 0.25) including being weak. The R-Square value indicates a value of 0.844, where the Satisfaction variable can be represented by 84.4% by the Ethical Leadership and Compensation variables. While the remaining 15.2% is represented by other variables outside the research model. Meanwhile, the Work engagement variable can be represented by 81.9% by the Ethical Leadership and Compensation variables. While the remaining 18.1% is represented by other variables outside the research model. These results are categorized as "strong".

b. **Path Analysis**

The analysis of the path coefficient or inner model can be seen from the level of significance through statistics and the p-values of each relationship in the hypothesis. A hypothesis is said to be significant if it has a t-statistic greater than 1.96 and p-values below 0.05. Furthermore, the evaluation of the model is carried out by looking at the significance value by carrying out the bootstrapping procedure to determine the effect between variables. This procedure uses the entire original sample for re-sampling. In this study the number of bootstrap samples used was 96. The expected t-value was > 1.96 with a significance level = 10%, t-value > 1.96 with a significance level = 5% and t-value > 2.326 with a significance level = 1%. In this study using a t-value significance level of 5% with a t-value > 1.65. The t-value results from this study are shown in the following table:

| Direct Effect | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | t Statistics (|O/STDEV| > 1.96) | P Values < 0.05 |
|---------------|---------------------|-----------------|--------------------------|----------------------|-----------------|
| Ethical Leadership - Satisfaction | 0.483 | 0.483 | 0.061 | 7.971 | **0.000** |
| Compensation – Satisfaction | 0.481 | 0.481 | 0.061 | 7.925 | **0.000** |
| Ethical Leadership - Work Engagement | -0.103 | -0.127 | 0.129 | 0.797 | **0.426** |
| Compensation - Work Engagement | 0.613 | 0.635 | 0.077 | 7.937 | **0.000** |
Based on the output results, the results show a significant influence (p-values > 0.05) on direct and indirect effects. For Ethical Leadership and Compensation for Satisfaction with Work Engagement with p values < 0.05. Ethical Leadership towards Work Engagement with p values > 0.05, and Compensation towards Work Engagement with p values < 0.05. Based on the output, there are 6 hypotheses accepted because it has p-values <0.05 and t-statistics > 1.96 and 1 hypothesis is rejected.

c. Path Charts

Based on the results of the output carried out by researchers using 170 samples, the path diagram in this study looks like in the picture below:

![Figure 2. Path Charts](image)

Based on the results of the path analysis, it can be concluded that H1, H2, H4, H5, H6 are accepted because they have P-values < 0.05, while H3 values are above 0.05, so the hypothesis is rejected. Then the results of the research hypothesis are shown in the following table:

<table>
<thead>
<tr>
<th>Satisfaction Engagement - Work</th>
<th>0.412</th>
<th>0.412</th>
<th>0.098</th>
<th>4.219</th>
<th>0.000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indirect Effect</strong></td>
<td>Original Sample (O)</td>
<td>Sample Mean (M)</td>
<td>Standard Deviation (STDEV)</td>
<td>T Statistics (</td>
<td>O/STDEV</td>
</tr>
<tr>
<td>Ethical Leadership – Satisfaction</td>
<td>0.199</td>
<td>0.200</td>
<td>0.059</td>
<td>3.371</td>
<td>0.001</td>
</tr>
<tr>
<td>Satisfaction – Work Engagement</td>
<td>0.199</td>
<td>0.196</td>
<td>0.046</td>
<td>4.336</td>
<td>0.000</td>
</tr>
</tbody>
</table>
Table 3. Research Hypothesis Testing Results

<table>
<thead>
<tr>
<th>Connection</th>
<th>t Statistics</th>
<th>P-values</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Ethical leadership has a positive effect on job satisfaction</td>
<td>7.971</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>H2: Compensation has a positive effect on job satisfaction</td>
<td>7.925</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>H3: Ethical leadership (Ethical Leadership) has a positive effect on Work Engagement.</td>
<td>0.797</td>
<td>0.426</td>
<td>Rejected</td>
</tr>
<tr>
<td>H4: Compensation has a positive effect on Work Engagement.</td>
<td>7.937</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>H5: Job satisfaction has a positive effect on Work Engagement.</td>
<td>3.371</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>H6: Employee satisfaction mediates the relationship between ethical leadership and Work Engagement.</td>
<td>4.336</td>
<td>0.001</td>
<td>Accepted</td>
</tr>
<tr>
<td>H7: Employee satisfaction mediates the relationship between compensation and Work Engagement.</td>
<td>3.371</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

This study explains that employees experience satisfaction with ethical leadership where a positive effect on employee satisfaction is because the leader's character influences employee behavior. The interaction model carried out by ethical leaders shows a very strong influence on employee satisfaction and creates a collaborative interaction model between the two. Leaders also maintain positive relationships with employees, listen to employees, communicate with employees, look after each other's interests and make fair decisions. Therefore, an ethical leader is able to increase the quality of employee trust and the quality of employee satisfaction. The stronger the implementation of ethical leadership carried out by leaders will increase employee satisfaction. The results of this study are in line with research conducted by Ampofo (2020); Buonomo et al. (2021); Wong et al. (2020); Freire and Bettencourt (2020); Ren and Chadee (2017); Rizwan et al. (2017); Alam et al. (2021) which states that ethical leadership has a positive effect on employee satisfaction.

Compensation is one of the feedback factors provided by the organization for employee contributions. Compensation in the form of financial and non-financial has an influence on employee satisfaction. Compensation that is fair and in accordance with employee contributions encourages increased job satisfaction. Employee Compensation energizes employees to put their best efforts into workplace success. Employees who are satisfied with the compensation they receive will be more involved in work, they are more willing to take responsibility. So that compensation will give enthusiasm to continue doing his work and be able to help achieve the goals of an organization. In this study, compensation has a positive influence on employee satisfaction. Based on the test results, there is a significant and positive effect of compensation on employee satisfaction, so this is in accordance with the initial hypothesis that the authors propose. This study also shows that compensation can encourage employees to work harder and produce good performance for the company. The results of this study are in accordance with research conducted by Fauchil et al. (2020); Robianto et al. (2020) which states that compensation has a positive effect on employee satisfaction.

The results of this study indicate that there is no relationship between ethical leadership and work engagement, this explains that the treatment and direction of employees, whether fair and respectful or not by their leaders, they tend to think that this has no effect. In addition, the leadership factor is not a factor in giving extra effort in their work. In the trading industry, employees are required to always get a profit target, so factors that do not have a direct impact are often not a priority in their performance. The leader factor really has an impact on the success of employees in this field, but other important factors are more dominant in influencing it such as compensation, facilities and work environment.
Based on the test results, there is no significant and positive effect of ethical leadership on Work Engagement, so this is not in accordance with the initial hypothesis that the authors propose. This study also shows that ethical leadership is not an incentive for employees to work harder and produce good performance for the company. The results of this study are not in accordance with research conducted by (Adnan et al., 2020; Buonomo et al., 2021; Dede, 2020; Mostafa and Abed El-Motalib, 2020; Özsungur, 2020, 2020; Santiago et al., 2021 ; Sarwar et al., 2020), which confirms that ethical leadership has a positive relationship with work engagement. This discrepancy can be caused by differences in culture, customs and other factors in previous studies that have been conducted abroad, where ethical leaders are able to have an impact on employee engagement. This research is in line with research conducted by Bella (2018) which explains that ethical leadership has no positive and significant effect on Work Engagement.

When we talk about productivity, the main concern that is often seen is in terms of compensation or benefits that will be received by employees. Employees will feel appreciated for their performance, loyalty and dedication to the progress of the company if appropriate compensation is provided. In addition, if the compensation received is in accordance with employee expectations, their work involvement will also increase. Achieving good job involvement balanced with proper compensation for employees will be able to increase the progress of a company or organization. Compensation can be interpreted as the return provided by the organization for employee contributions. Compensation in the form of financial and non-financial has an influence on employee work engagement (Fauzin, et. al., 2020). High and fair compensation in accordance with employee contributions encourages increased job satisfaction (Sugiono et al., 2021). This compensation raises the employee's work engagement. This explains that the higher the suitability of compensation received by employees, the employee's work engagement also increases. Based on the test results in this study, it shows that compensation can have a positive and significant influence on work engagement. This is in accordance with research conducted by Ashraf (2020); Fauchil et al. (2020); Robianto et al. (2020) which states that compensation has a positive effect on Work Engagement.

Based on the results of this study indicate that a high level of employee work engagement can lead to greater employee satisfaction, lower employee absenteeism and turnover rates, improved health and well-being, and performance in better roles and extra roles. Furthermore, this research also shows that employees with high levels of job satisfaction actually have positive feelings about work engagement, while people who are dissatisfied have negative feelings about work engagement. The results of this study are in line with research conducted by Chan et al. (2020); Yalabik et al., (2017); Håvold et al., (2021); Bayona et al., (2020); Manalo,(2020); Yu et al. (2020) which states that employee satisfaction has a positive effect on employee work engagement.

Based on the results of this study indicate that ethical leadership and compensation are factors that can increase employee satisfaction. The mediating effect of satisfaction used in this study turned out to be able to provide a strong and positive mediating effect for Trading employees. It is important for employees to understand the factors that influence job satisfaction. When employees become satisfied with their leaders and the compensation they receive from the organization, they feel obligated to pay with a positive attitude towards the organization (Haar & Spell, 2004; Weng, McElroy, Morrow, & Liu, 2010). This positive attitude is shown by the existence of a strong work engagement towards the organization. When employees are involved in their work, they tend to develop greater emotional attachment to the organization when they realize that the organization helps them obtain accumulated work resources (Ibrahim, Suan, & Karatepe, 2019). The results of this study are in line with research conducted by Haar & Spell, (2004); Weng et al. (2010) which states that employee satisfaction
is able to mediate the relationship between ethical leadership and compensation on work engagement.

E. CONCLUSION

This study found that Compensation and Satisfaction have a positive effect on Work Engagement, Ethical Leadership does not have a positive effect on Work Engagement. Besides that, the indirect effect of satisfaction significantly mediates ethical leadership and compensation on Work Engagement. The findings of this study provide useful information for companies and researchers in seeing the effect on work engagement. If an employee is able to be involved in his work, then the results of the employee’s performance can be better, which is shown through more enthusiastic work behavior at work, more focused and effective, as well as the higher quality of work they do. In addition, these findings are useful for academics and many other factors to find the effect of increasing job satisfaction and work engagement.

The limitations of this study lie in a number of ways, where the researcher realized that there were many difficulties in the data collection process. Where the majority of employees at trading companies in Jakarta have busy work schedules, so to take the time to fill out this questionnaire, the authors remind and explain their aims and objectives. In addition, more in-depth research is needed regarding the accuracy of the compensation given and the factors that define success in leadership in achieving success, not only from results.

REFERENCES
Characteristics’ Fit and Job Satisfaction and Job Performance: The Mediating Role of Work Engagement. *Sustainability (Switzerland)*, 12(6). https://doi.org/10.3390/su12062336


