

The Impact of Workforce Capability Development and Competitive Compensation Incentives on Workplace Commitment Mediated by Work Engagement at CV. Ayo Usaha

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Abstract

This research investigates the influence of workforce capability enhancement and competitive remuneration incentives on employee commitment, with work engagement functioning as a mediating variable within the staff of CV. Ayo Usaha. A quantitative research methodology utilizing a causal design was adopted. Primary data were gathered via a questionnaire survey targeting 120 permanent employees and were analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM). The results reveal that workforce capability enhancement and competitive remuneration incentives significantly and positively impact work engagement and employee commitment. Additionally, work engagement serves as a significant mediator in the relationship between both independent variables and workplace commitment. These findings underscore the critical role of employee capability enhancement and equitable compensation structures in promoting work engagement and reinforcing organizational commitment.

Keywords: Workforce Capability Building; Competitive Compensation Incentive; Work Engagement; Workplace Commitment

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INTRODUCTION

In the context of globalization and the rapid pace of digital transformation, organizations encounter increasingly intricate competitive dynamics, necessitating a flexible and performance-driven approach to human resource (HR) management. Employees are now recognized not merely as production factors, but as strategic assets that significantly influence an organization's capacity to adapt to technological advancements, meet efficiency requirements, and enhance productivity. According to the Global Talent Trends Report, investment in the development of workforce capabilities is essential for establishing a sustainable competitive edge, particularly through skill enhancement, ongoing learning, and preparedness for evolving work environments (Gürbüz et al., 2023).

Moreover, the establishment of competitive reward systems is crucial in influencing employee attitudes and work behaviors. Competitive compensation not only functions as a financial incentive but also serves as a testament to fairness and an acknowledgment of employee contributions by the organization. Al-Qudah et al.

(2020) elucidate that organizations providing incentives commensurate with employee contributions tend to experience higher levels of engagement and loyalty compared to their counterparts. However, in practice, the integration of HR capability development and competitive compensation systems is frequently suboptimal, particularly in medium-sized enterprises, which may diminish levels of employee engagement and weaken workplace commitment.

This phenomenon is also observable at Ayo Usaha, a stone mining enterprise located in Sragen Regency, Central Java, which heavily depends on the performance of its operational and technical workforce. The nature of work that demands specialized skills, stringent discipline, and operational rigor makes employee capabilities a vital component for sustaining productivity and ensuring workplace safety. Variations in skill levels among employees, limitations in structured competency development programs, and misalignments in perceptions of incentive systems can adversely affect employee engagement and commitment to their work. This situation underscores pertinent HR management challenges that warrant empirical investigation.

Several prior studies have indicated a correlation between workforce capability enhancement and competitive compensation incentives with workplace commitment. Research conducted by Gürbüz et al. (2024) indicated a positive relationship between employee capability sets and long-term outcomes such as work engagement, job satisfaction, and organizational commitment. Hanjani et al. (2023) found that equitable and competitive compensation can enhance employee engagement towards their work and the organization. Additionally, Robianto et al. (2020) demonstrated that competitive compensation increases employee engagement and loyalty when perceived as fair and proportionate to individual contributions. These findings affirm that HR management practices play a strategic role in shaping employee attitudes and work behaviors, particularly by fostering greater work engagement.

To elucidate the correlational dynamics between workforce capability enhancement, competitive compensation incentives, and workplace commitment, this research employed the Job Demands-Resources (JD-R) Model, Social Exchange Theory (SET), and Equity Theory. According to the JD-R framework, workforce capability enhancement and competitive compensation incentives are classified as job resources that can elevate employee motivation and psychological well-being, thereby fostering work engagement (Bakker & Demerouti, 2007). From the standpoint of Social Exchange Theory, elevated work engagement signifies a reciprocal relationship between employees and organizations, wherein organizational investments in capability development and fair compensation are met with heightened work commitment (Blau, 1964). Additionally, Equity Theory underscores the significance of perceived fairness in the compensation framework as a critical determinant influencing employees' work attitudes and emotional ties (Adams, 1965). The synthesis of these three theoretical perspectives offers a robust conceptual framework to elucidate the mechanisms underlying workplace commitment development, both directly and indirectly.

Nonetheless, several research voids warrant attention. Firstly, prior studies predominantly emphasized the direct impact of workforce capability enhancement

and competitive compensation incentives on work commitment, often neglecting to thoroughly investigate the mediating role of work engagement. Secondly, a considerable number of studies have been limited to large or multinational corporations, with the context of medium-sized enterprises in Indonesia, particularly within the operational-based industrial sector, remaining underexplored. Thirdly, research that amalgamates HR capability enhancement and competitive compensation within a cohesive structural model utilizing a quantitative path analysis approach is notably scarce.

In light of this context, the present study seeks to explore the structural relationships between workforce capability enhancement, competitive compensation incentives, work engagement, and workplace commitment through primary data collected via employee CV questionnaire surveys. Employing a quantitative methodology alongside Partial Least Squares-based Structural Equation Modeling (PLS-SEM) analysis, this research aims to concurrently assess both direct and indirect relationships among the variables. It is anticipated that this study will offer theoretical contributions that enrich the human resource management literature by integrative testing of the JD-R Model, Social Exchange Theory, and Equity Theory, while also providing practical insights for medium-sized enterprises in formulating effective capability development strategies and compensation frameworks to sustainably enhance employee engagement and commitment.

METHOD

Types and Design of Research

This study utilizes a quantitative research approach characterized by a causal framework to investigate the structural interconnections among various variables, anchored in a well-established theoretical model. The adoption of a quantitative methodology allows for the objective evaluation of relationships between constructs through statistical examination of numerical data (Sugiyono, 2022). The causal framework aids in recognizing both direct and indirect impacts of workforce capability enhancement and competitive compensation incentives on workplace commitment, with work engagement functioning as a mediating variable. This framework is particularly relevant for testing hypotheses derived from previous empirical theories and results (Creswell, 2021; Sekaran & Bougie, 2023) and is appropriate for exploring complex relationships among latent constructs using the Structural Equation Modeling technique.

Population and Sampel

The research cohort consists of all permanent staff members within the organization. More specifically, it comprises individuals who have been with the company for at least one year. This seniority requirement is established to ensure that participants have adequate experience related to workforce capability enhancement initiatives, compensation structures, levels of job engagement, and organizational loyalty (Sugiyono, 2019). The sampling strategy utilized is purposive sampling, which adheres to the following criteria:

- (1) Must be a permanent employee,

- (2) must have at least one year of employment, and
- (3) must consent to participate voluntarily (Sekaran & Bougie, 2023).

Research Model

The research framework consists of two independent variables: the development of workforce capabilities and competitive compensation incentives, one mediating variable recognized as work engagement, and a dependent variable referred to as workplace commitment. The development of workforce capabilities refers to the organization’s efforts to enhance employees’ skills, knowledge, and overall productivity (Ulrich, 1997), whereas competitive compensation incentives involve a holistic reward system—encompassing both monetary and non-monetary elements—designed to motivate and retain employees (Milkovich et al., 2016). Work engagement acts as a mediating variable that reflects an employee's positive psychological state characterized by vigor, dedication, and immersion (Schaufeli et al., 2002). Workplace commitment represents an employee’s emotional bond with the organization, incorporating affective, normative, and continuous commitments (Meyer & Allen, 1991). This model is designed to investigate both the direct and indirect relationships among the constructs within a cohesive structural framework.

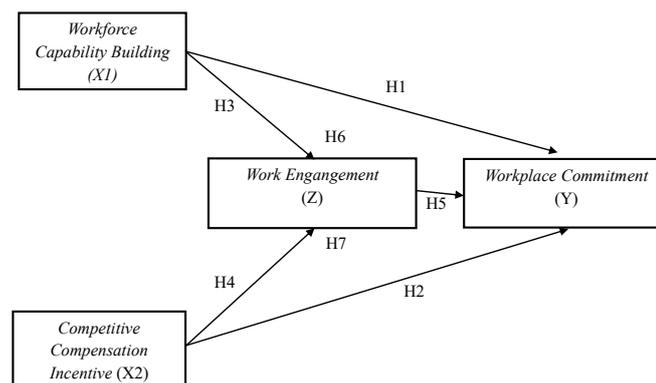


Figure 1. Research Model

Estimation Technique

The data were analyzed using Partial Least Squares—Structural Equation Modeling (PLS-SEM) through SmartPLS software. This methodology was chosen for its suitability in handling complex structural models, accommodating relatively small sample sizes, and its lack of prerequisite for assuming normality in data distribution (Ghozali & Latan, 2015). The analysis consists of two main stages: evaluating the measurement model (outer model) and assessing the structural model (inner model). The evaluation of the outer model includes assessing convergent validity via indicator loadings and Average Variance Extracted (AVE) metrics, examining discriminant validity through cross-loading and the Fornell–Larcker criteria, as well as determining construct reliability through Composite Reliability and Cronbach's Alpha (Hair et al., 2019; Abdillah & Hartono, 2015). The internal model evaluation involves examining the coefficient of determination (R^2), predictive relevance (Q^2), and hypothesis testing through path coefficient analysis and specific indirect effects using a bootstrapping method at a 5% significance level.

RESULT AND DISCUSSION

Outer Model Analysis

Table 1. Outer Loading

Variable	Indicator	Outer Loading
<i>Workforce Capability Building (X1)</i>	X1.1	0,888
	X1.2	0,887
	X1.3	0,898
	X1.4	0,917
<i>Competitive Compensation Incentive (X2)</i>	X2.1	0,897
	X2.2	0,915
	X2.3	0,903
	X2.4	0,902
	X2.5	0,906
	X2.6	0,900
<i>Workplace Commitment (Y)</i>	Y.1	0,922
	Y.2	0,916
	Y.3	0,912
	Y.4	0,940
	Y.5	0,924
<i>Work Engagement (Z)</i>	Z.1	0,886
	Z.2	0,888
	Z.3	0,908
	Z.4	0,910
	Z.5	0,899

Source: Author, 2025

Based on the previously mentioned table, all metrics related to the study variables exhibited substantial outer loading values, ranging from 0.886 to 0.940. As a result, every indicator within this research has met the requirements for convergent validity, as there are no indicators with an outer loading value falling below 0.50. This condition indicates that each indicator is proficient in accurately and consistently representing the latent construct or variable it signifies.

Table 2. AVE

Variable	AVE	
Workforce Capability Building (X1)	0,806	Valid
Competitive Compensation Incentive (X2)	0,817	Valid
Workplace Commitment (Y)	0,852	Valid
Work Engagement (Z)	0,807	Valid

Source: Author, 2025

Based on the previously discussed table, all study variables demonstrated Average Variance Extracted (AVE) values exceeding the benchmark of 0.50, specifically 0.806 for Workforce Capability Building (X1), 0.817 for Competitive Compensation Incentive (X2), 0.852 for Workplace Commitment (Y), and 0.807 for Work Engagement (Z). Therefore, it can be concluded that all variables in this research possess validity concerning convergent validity.

Table 3. Cross Loading

Indicator	Workforce Capability Building	Competitive Compensation Incentive	Workplace Commitment	Work Engagement
X1.1	0,888	0,094	0,549	0,579
X1.2	0,887	0,141	0,571	0,583
X1.3	0,898	0,043	0,554	0,575
X1.4	0,917	0,126	0,599	0,646
X2.1	0,088	0,897	0,629	0,569
X2.2	0,089	0,915	0,622	0,597
X2.3	0,084	0,903	0,611	0,563
X2.4	0,115	0,902	0,615	0,613
X2.5	0,088	0,906	0,646	0,608
X2.6	0,148	0,900	0,639	0,626
Y.1	0,572	0,632	0,922	0,812

Y.2	0,623	0,589	0,916	0,824
Y.3	0,586	0,656	0,912	0,850
Y.4	0,578	0,651	0,940	0,838
Y.5	0,567	0,672	0,924	0,829
Z.1	0,563	0,575	0,780	0,886
Z.2	0,607	0,586	0,823	0,888
Z.3	0,628	0,566	0,795	0,908
Z.4	0,606	0,632	0,819	0,910
Z.5	0,579	0,603	0,823	0,899

Source: Author, 2025

Based on the information provided in the previously mentioned table, it is clear that every indicator related to the study variables demonstrates the highest cross-loading value within its designated construct in comparison to the cross-loading values of other variables. In light of these observations, it can be inferred that the indicators employed in this study meet the standards for strong discriminant validity, thereby accurately representing their respective variable constructs with a high degree of precision.

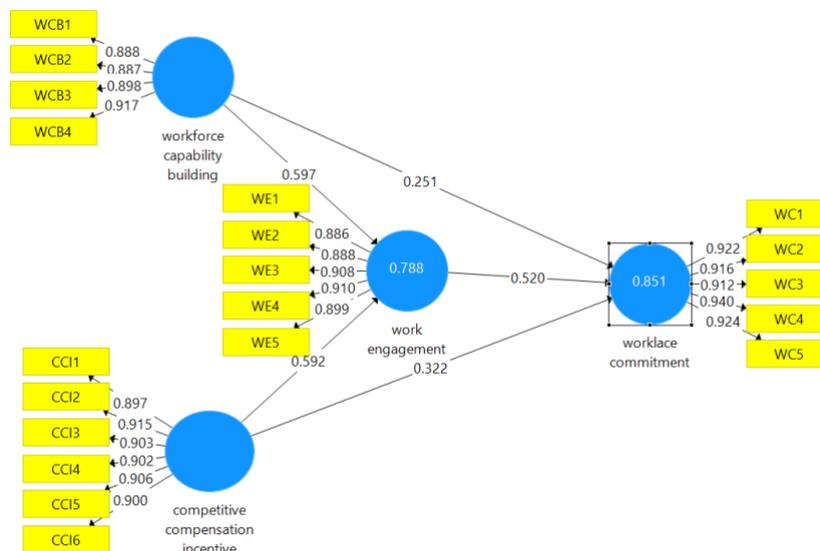


Figure 2. Outer Model

Reliability Test

Table 4. Composite Reliability

Variable	Composite Reliability
<i>Workforce Capability Building (X1)</i>	0,943
<i>Competitive Compensation Incentive (X2)</i>	0,964
<i>Workplace Commitment (Y)</i>	0,966
<i>Work Engagement (Z)</i>	0,954

Source: Author, 2025

Based on the information provided in the aforementioned table, it is clear that each variable under examination displays composite reliability coefficients that surpass the threshold of 0.70. In particular, the respective values are 0.943 for workforce capability development (x1), 0.964 for competitive compensation incentives (x2), 0.966 for workplace commitment (y), and 0.954 for work engagement (z). Consequently, one can deduce that all variables scrutinized in this study indicate a robust and consistent level of reliability.

Table 5. Cronbachs Alpha

Variable	Cronbach's Alpha
Workforce Capability Building (X1)	0,919
Competitive Compensation Incentive (X2)	0,955
Workplace Commitment (Y)	0,957
Work Engagement (Z)	0,940

Source: Author, 2025

As indicated by the table presented earlier, it is clear that all variables analyzed in this study demonstrated Cronbach's Alpha values surpassing 0.60. This benchmark indicates that each construct has met the established reliability criteria, thereby confirming that all variables can be regarded as reliable and exhibit strong internal consistency in assessing each indicator.

Multicollinearity Test

Tabel 6. Collinearity Statistic (VIF)

	Work Engagement	Workplace Commitment
Workforce Capability Building (X1)	1,013	2,696
Competitive Compensation Incentive (X2)	1,013	2,667
Work Engagement (Z)		4,715
Workplace Commitment (Y)		

Source: Author, 2025

According to the previously mentioned table, it is clear that the Collinearity Statistics (VIF) for all variables show a Tolerance value greater than 0.10 or a VIF value lower than 5. Consequently, it can be inferred that none of the variables in this analysis faced multicollinearity problems and complied with the assumptions of the research framework.

Inner Model Analysis

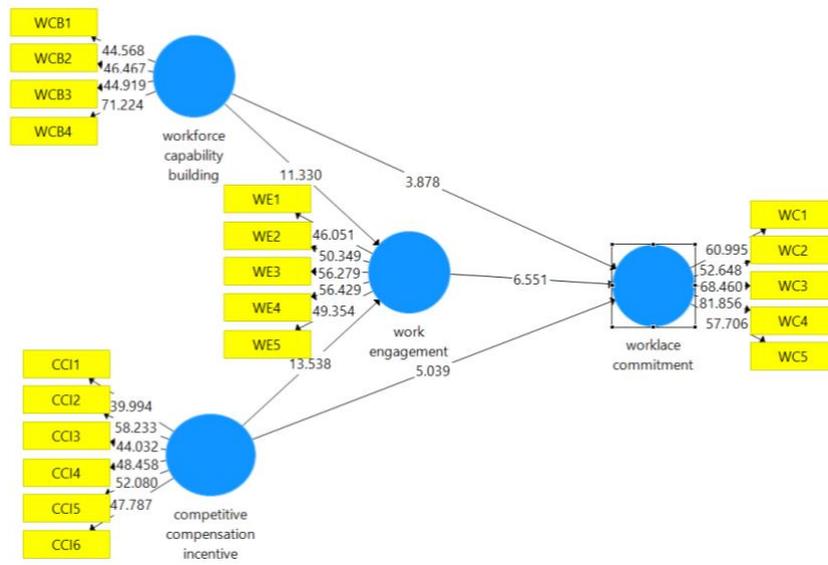


Figure 3. Inner Model

Tabel 7. R-Square

	R Square	R Square Adjusted
Work Engagement (Z)	0,788	0,784
Workplace Commitment (Y)	0,851	0,847

Source: Author, 2025

In light of the previously mentioned table, R-Square values were utilized to evaluate the degree to which the independent variable affected the dependent variable within the research framework. The R-Square value for the Work Engagement (Z) variable was calculated to be 0.788, or 78.8%, indicating that the predictor variables explained 78.8% of the variance in Work Engagement, while the remaining 21.2% could be ascribed to external influences not encompassed by the research model. In contrast, the R-Square value for the Workplace Commitment (Y) variable was established at 0.851, or 85.1%, implying that the independent variables influencing it were adept at clarifying 85.1% of the variability in Workplace Commitment. In view of these results, both models are deemed robust, as the R-Square values surpass the threshold of 0.75.

The subsequent evaluation is Q-Square (Predictive Relevance), employed to assess the model's capacity to forecast empirical data. The Q-Square metric is derived using the following formula:

$$\begin{aligned}
 Q^2 &= 1 - [(1 - 0,788) \times (1 - 0,851)] \\
 &= 1 - (0,212 \times 0,149) \\
 &= 1 - 0,0316 \\
 &= 0,9684
 \end{aligned}$$

Q-Square value of 0.9684 signifies that the research model possesses exceptional predictive capability, as its value exceeds 0. Specifically, 96.84% of the variance in the data can be accounted for by the research model, while the remaining 3.16% is attributed to external

factors beyond the model's scope. Therefore, it can be concluded that the model utilized in this study demonstrates a commendable goodness of fit.

Hyphotesis Test

Table 8. Path Coefficient (Direct Effect)

	Coefficient	t-stat	P-Values	
<i>Workforce Capability Building -> Worklace Commitment</i>	0,251	3,959	0,000	Significant Positive
<i>Competitive Compensation Incentive -> Worklace Commitment</i>	0,322	4,725	0,000	Significant Positive
<i>Workforce Capability Building -> Work Engagement</i>	0,597	11,285	0,000	Significant Positive
<i>Competitive Compensation Incentive -> Work Engagement</i>	0,592	13,598	0,000	Significant Positive
<i>Work Engagement -> Worklace Commitment</i>	0,520	6,421	0,000	Significant Positive

Source: Author, 2025

Based on the aforementioned table, the outcomes of the direct effect assessment can be articulated as follows:

1. The findings revealed an original sample value of 0.251, a t-statistic of 3.959, and a p-value of 0.000. Given that the t-statistic exceeds 1.96 and the p-value is below 0.05, it is concluded that H1 is accepted.
2. The results indicated an original sample value of 0.322, a t-statistic of 4.725, and a p-value of 0.000. Since the t-statistic is greater than 1.96 and the p-value is less than 0.05, H2 is therefore accepted.
3. The results indicated an sample value was 0.597, the t-statistic was 11.285, and the p-value was 0.000. H3 is therefore accepted.
4. The original sample value was 0.592, the t-statistic was 13.598, and the p-value was 0.000. Given that the t-statistic exceeds 1.96 and the p-value is below 0.05, H4 is accepted.
5. The results indicated an original sample value of 0.520, a t-statistic of 6.421, and a p-value of 0.000. Since the t-statistic exceeds 1.96 and the p-value is below 0.05, H5 is accepted.

Table 9. Indirect Effect

	Coefficient	t-stat	P-Values
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Workforce Capability Building -> Work Engagement -> Workplace Commitment	0,311	6,264	0,000	Significant Positive
Competitive Compensation Incentive -> Work Engagement -> Workplace Commitment	0,308	5,673	0,000	Significant Positive

Source: Author, 2025

According to the data presented in the table above, the outcomes of the indirect effect analysis can be articulated as follows:

1. The findings revealed an original sample value of 0.311, a t-statistic of 6.264, and a p-value of 0.000. Given that the t-statistical value exceeds 1.96 and the p-value is below 0.05, it can be concluded that H6 is validated.
2. The findings indicated an original sample value of 0.308, a t-statistic of 5.673, and a p-value of 0.000. Since the t-statistic is greater than 1.96 and the p-value is less than 0.05, H7 is likewise affirmed.

Discussion

The results demonstrate that the augmentation of workforce capabilities positively and significantly influences both employee engagement and loyalty to the organization. These findings affirm that organizational commitments to the enhancement of employee skills not only elevate technical proficiency but also strengthen employees' emotional ties to their roles and the entity. From a theoretical standpoint, capacity enhancement instills a sense of competence and significance in work, which is essential for fostering commitment. These findings correspond with the claims made by Hosen et al. (2023), who suggested that training and development efforts enhance employee dedication by improving perceptions of support from the organization. Furthermore, Okolo et al. (2024) and Sari et al. (2023) identified that sustainable capacity development fosters employee allegiance and a commitment to continuous contributions within the organization. Hence, the enhancement of workforce capabilities acts as a strategic approach that links the improvement of human resource quality with the persistent reinforcement of work commitments.

Empirical studies demonstrate that competitive compensation incentives have a significant and positive impact on employee engagement and commitment to the organization. These results imply that a fair, transparent, and performance-driven remuneration framework can bolster employee motivation and emotional involvement in their positions. From the perspective of organizational justice, competitive remuneration enhances the perception of rewards for employees' contributions, thereby further promoting engagement and commitment. These insights corroborate the findings of Wijayanti et al. (2023) and Hameed & Nisar (2022), who assert that fair compensation nurtures employee loyalty and connection. Research conducted by Nguyen et al. (2023), S. Kim & Park (2022), and Yoon & Kim (2024)

likewise shows that performance-based incentives result in increased energy, dedication, and job satisfaction, ultimately leading to greater organizational commitment. Thus, the competitive compensation incentive serves not only as a retention strategy but also functions as a psychological driver for employee engagement and commitment.

The results from the mediation analysis reveal that work engagement plays a pivotal role as a mediator in the connection between the enhancement of workforce capabilities and competitive compensation incentives with regard to workplace commitment. These findings affirm the concept that engagement functions as a psychological conduit that links human resource management practices to organizational commitment. The development of capabilities enhances job confidence and instills a sense of purpose, while competitive compensation improves perceptions of equity and reward, thereby concurrently elevating employee engagement. These elements contribute to the formation of a stronger loyalty to the organization. This evidence corroborates the research conducted by Hussain & Deery (2023) and Y. Chen et al. (2024), which emphasize the importance of engagement as a bridge between organizational support and work commitment. Additionally, these results are in line with the discoveries of Al-Zgool & Ahmed (2022) and Aboramadan et al. (2023), which illustrate that work engagement intensifies the influence of HR practices on both affective and normative commitment. Consequently, work engagement emerges as a vital factor in fostering lasting workplace commitment.

CONCLUSION

The study established that the enhancement of workforce capabilities and the provision of competitive compensation incentives significantly and positively impact workplace commitment, both directly and indirectly through work engagement as a mediating element. These findings affirm that work commitment arises not only from skill enhancement or financial rewards but also through psychological mechanisms defined by work attachment. The improvement of capabilities fosters a sense of competence and value in one's role, whereas fair compensation strengthens perceptions of equity and reward within the organization, together fostering employee engagement and loyalty. Thus, work engagement serves as the essential link between human resource management practices and the formation of sustained workplace commitment, particularly in organizations with high job demands.

In light of these insights, it is advised that organizations integrate workforce capability development programs along with competitive and transparent compensation structures as a strategic long-term method to foster employee commitment. Such programs should be continuously refined to not only enhance performance but also to strengthen employees' emotional ties to their roles and the organization. Moreover, future research should aim to expand the context and variables of the study, possibly by incorporating leadership dynamics, organizational culture, or work-life balance aspects, and utilizing longitudinal methods to enable a more thorough examination of engagement and commitment dynamics. This approach is expected to improve the relevance of the findings and enhance the theoretical and practical contributions of the research.

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