

MAINTAINING EMPLOYEE RETENTION AND EMPLOYEE ENGAGEMENT IN FAMILY-OWNED MSMEs IN INDONESIA THROUGH COMPENSATION AND LEADER COMPETENCE

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Abstract

This study explores the complex dynamics of sustaining worker engagement and retention in family-run Micro, Small, and Medium-Sized Enterprises (MSMEs) in Indonesia, emphasizing the functions of leader competency and remuneration. 245 individuals from different family-owned MSMEs participated in the study, which used a quantitative methodology. To examine the connections between pay, leader competency, employee retention, and engagement, structural equation modeling (SEM) with partial least squares (PLS) was used. Strong validity and reliability were demonstrated by the measurement model, validating the applicability of the selected indicators. The structural model showed that there are strong positive correlations between pay, the ability of leaders, and employee engagement and retention. These results were also strongly impacted by the interaction effects of leader competency and compensation. The adequacy of the suggested model was confirmed by the goodness-of-fit indexes. By offering factual support and practical advice for family-owned MSMEs looking to improve employee engagement and retention, our findings add to the body of literature already in existence.

Keywords: Family-Owned MSMEs, Compensation, Leader Competence, Employee Retention, Employee Engagement

INTRODUCTION

Micro, Small, and Medium-Sized Enterprises (MSMEs) are vital to Indonesia's economy since they create jobs and boost the nation's GDP. These businesses can overcome financial difficulties and provide employment, which will promote economic expansion (Atichasari & Marfu, 2023)(Atichasari & Marfu, 2023). To empower MSMEs and enable them to grow their businesses, boost production, and add new employment, they must have access to capital, technical help, and business development support (Yose, 2023)(Yose, 2023). Positive tax laws also positively impact MSMEs' firm expansion and investment choices, both of which support economic growth (Taslim & Kadiyono, 2023)(Taslim & Kadiyono, 2023). Furthermore, it has been discovered that MSMEs with a strong entrepreneurial orientation are common in some areas, suggesting that they can spur economic growth (Amin et al., 2023)(Amin et al., 2023). However, obstacles like poor business management abilities, reluctance to risk, and a lack of assistance from relevant organizations impede the growth of MSMEs. Consequently, the government's role is essential to maintaining and growing the MSME sector (Marwanto et al., 2023)(Marwanto et al., 2023).

Family-owned MSMEs in their industry have particular possibilities and constraints. Employee engagement and retention are major concerns for these businesses since they have a direct bearing on their long-term viability and performance (Machida, 2021; Mlotshwa, 2022; Sholehuddin, 2022)(Machida, 2021; Mlotshwa, 2022; Sholehuddin, 2022). Employee churn can cause operational disruptions as well as the loss of important knowledge and abilities. Family-owned MSMEs should place a high priority on fostering an atmosphere that encourages staff development to address this. This entails putting in place efficient channels for communication, offering benefits and pay that are competitive, and cultivating a happy work environment (Akume & Iguisi, 2020; Ammar & Mboga, 2021)(Akume & Iguisi, 2020; Ammar & Mboga, 2021). Family-owned MSMEs should also think about implementing suitable governance frameworks and succession planning to guarantee a seamless handoff of leadership and preserve continuity. Family-owned MSMEs can improve their long-term sustainability and set themselves up for market success by placing a high priority on staff engagement and retention.

A distinct organizational dynamic is introduced by the family-oriented structure of family enterprises, which combines professional positions with familial bonds. A sense of commitment and belonging can be fostered by this framework (Brito, 2022)(Brito, 2022). But it also presents difficult problems for communication, leadership, and the workplace as a whole (Ferrari, 2020)(Ferrari, 2020). Comprehending the various facets of the family company organizational environment is essential since the succession process must be well-planned and executed (Visser & van Scheers, 2020)(Visser & van Scheers, 2020). Few family firms survive into the second or third generation, making them sensitive to short-term and short-term changes in the business environment (Iqbal & Mansoor, 2022)(Iqbal & Mansoor, 2022). Family firms follow different governance procedures than non-family enterprises, and they typically modify their procedures to address the particular agency issue that they encounter (Bekiaris & Papanastasiou, 2021)(Bekiaris & Papanastasiou, 2021). Thus, it is imperative to comprehend the elements that lead to employee engagement and retention in this particular setting.

In today's global corporate environment, employees seek benefits beyond monetary compensation. They also place importance on acknowledgment, a healthy work atmosphere, and a sense of purpose. The requirement for organizations to adjust to these changes and the evolving labor dynamics have an impact on these evolving expectations and aspirations. For instance, studies by (Marr, 2020)(Marr, 2020) and (Zilincikova & Stofkova, 2020)(Zilincikova & Stofkova, 2020)emphasize the value of acknowledgment and non-cash perks in boosting workers' general job satisfaction and motivation. Furthermore, (Wang, 2023; Zaki Ismail & Ahmed, 2015)(Wang, 2023; Zaki Ismail & Ahmed, 2015) emphasizes that to promote excellence and foster a culture of recognition, organizations must match individual and team goals with organizational

objectives. These results imply that to satisfy the many requirements of their workforce, organizations should concentrate on developing a comprehensive system of rewards and recognition that extends beyond monetary incentives. As a result, family-owned MSMEs in Indonesia must modify their approaches to draw in, keep, and utilize a skilled workforce.

This research deeply explores aspects of employee retention and engagement in family MSMEs in Indonesia, with a primary focus on the impact of compensation and leader competencies. The research objectives include: first, evaluating the impact of compensation on employee retention and engagement, including an assessment of the effectiveness of salary structures, benefits, and incentives in fostering employee commitment; second, investigating the influence of leader competence on employee retention and engagement, considering the contribution of leadership quality in family MSMEs to overall employee satisfaction, motivation, and engagement; third, analyzing the interactive effect between compensation and leader competence to understand the synergy between fair compensation practices and competent leadership in improving employee retention and engagement; and finally, providing practical recommendations based on the research findings to strengthen family MSMEs in creating an environment that supports employees' long-term commitment.

Employee Retention and Engagement

Engagement and retention of employees are essential for the success of an organization. Engagement is the emotional and intellectual commitment of a person to their work and company, whereas retention is the ability of an organization to keep its people over time. Research has indicated that elements including organizational commitment, P-E fit, and a sustainable work environment have an impact on employee engagement (Hasan et al., 2021; Pacquing, 2023; Raza & Nadeem, 2018)(Hasan et al., 2021; Pacquing, 2023; Raza & Nadeem, 2018). It has been discovered that the association between organizational commitment and P-E fit is mediated by employee engagement (Padmavathi, 2023)(Padmavathi, 2023). Furthermore, work engagement, job satisfaction, and employee retention are favorably predicted by a sustainable work environment, which includes elements like perceived climate, supervisory connection, peer group interaction, and perceived organizational support (Sunitha et al., 2023)(Sunitha et al., 2023). To draw in and keep top talent, organizations must concentrate on putting employee-friendly policies and procedures into place. Organizations may boost staff commitment and happiness, which will improve performance and success, by placing a high priority on employee engagement and retention.

A family-oriented structure can have a good impact on staff retention in the context of family-owned MSMEs in Indonesia since it fosters a sense of belonging. The blending of personal and professional spheres, however, might provide difficulties. To promote engagement and retention, family-owned businesses must carefully manage

this dynamic by placing a strong focus on open communication and clearly defined professional duties

Compensation

Pay is a critical factor in employee retention and satisfaction, particularly in family-owned MSMEs where perceived disparities in reward distribution may be problematic. Empirical studies underscore the significance of attractive compensation plans, equitable benefits packages, and clear incentive schemes in preserving the skills of proficient personnel (Adanlawo & Nkomo, 2023; Ronaldi, 2023; Shoaib et al., 2023)(Adanlawo & Nkomo, 2023; Ronaldi, 2023; Shoaib et al., 2023). Increased job satisfaction is a result of fair compensation's beneficial effects on worker motivation and performance (Pudjiarti et al., 2023; Sudiantini et al., 2023)(Pudjiarti et al., 2023; Sudiantini et al., 2023). Furthermore, there is a strong positive correlation between job satisfaction and employee retention. Because of this, businesses must create a pay plan that is commensurate with workers' accomplishments and contributions to guarantee that workers feel appropriately compensated for their efforts. Through the implementation of innovative and appealing compensation plans, organizations can boost staff retention and encourage individual achievement. Moreover, the sense of compensation equity becomes critical in the familial setting of these businesses. Favoritism and nepotism-related problems can have a detrimental effect on retention and morale. Family-owned MSMEs may think about putting in place transparent, merit-based pay structures in order to allay these worries.

Leader Competence

The ability to lead effectively is essential for determining how the workplace is structured and how employees feel about their jobs. The influence of leader competence is magnified in family-owned MSMEs, where family members may hold leadership positions. Successful family business executives strike a balance between professional and personal responsibilities, exhibiting not only technical expertise but also emotional intelligence and flexibility. Employee engagement and leadership competency are strongly related because capable leaders create a great work environment, inspire trust, and offer guidance. Maintaining employee engagement in family-owned MSMEs requires leaders to recognize and handle the particular challenges of striking a balance between professional obligations and familial bonds (Diamantidis & Chatzoglou, 2018; Sudarmiatiin & Hermawan, 2023; YAHUPOV, 2023)(Diamantidis & Chatzoglou, 2018; Sudarmiatiin & Hermawan, 2023; YAHUPOV, 2023).

Interactive Effects of Compensation and Leader Competence

A wealth of research has been done on the effects of leadership competency and remuneration on employee engagement and retention. Research indicates that companies that successfully strike a balance between offering competitive pay packages and having capable leadership are more likely to see increases in employee commitment (Un et al., 2023)(Un et al., 2023). Nonetheless, scant research explores the

synergistic effects of equitable remuneration and capable leadership, particularly in the setting of MSMEs owned by families (Sofiyanti & Najmudin, 2023)(Sofiyanti & Najmudin, 2023). This knowledge gap emphasizes the need for more research on the interactions between leadership competency and compensation and how these affect employee outcomes like engagement and retention. Organizations may create strategies to maximize employee engagement and performance by knowing how these characteristics interact and influence one another (Manalu et al., 2023; Setyawati et al., 2023)(Manalu et al., 2023; Setyawati et al., 2023).

Literature Gap

Insights into specific factors impacting employee engagement and retention can be found in literature, but little is known about how pay and leader competency interact in Indonesian family-owned MSMEs. Closing this gap is essential to creating focused strategies that recognize and capitalize on these businesses' distinct characteristics.

H1: The amount of pay offered by family-owned MSMEs in Indonesia has a favorable correlation with employee retention. Increased commitment from employees is linked to higher compensation levels, which in turn leads to lower turnover rates.

H2: Employee engagement is better in family-owned MSMEs in Indonesia that provide attractive compensation packages. Workers are more likely to be motivated and invested in their work if they believe they are being paid fairly and well.

H3: There is a strong correlation between employee retention and the leadership competency of family-owned MSMEs in Indonesia. Good leadership creates a favorable work environment that motivates employees to stick with the company. This includes both technical expertise and interpersonal abilities.

H4: Employee engagement and leader competency in family-owned MSMEs in Indonesia are positively correlated. High performers in terms of technical skill, emotional intelligence, and flexibility foster a work environment that increases commitment and motivation from their team members.

H5: In family-owned MSMEs in Indonesia, the combined effects of equitable remuneration policies and capable leadership have a synergistic effect on staff retention. The possibility that workers will stick with the company is positively impacted by the relationship between pay and leader competency.

H6: In family-owned MSMEs in Indonesia, the combined impact of equitable remuneration policies and capable leadership enhances worker engagement. Employee engagement is higher in companies that succeed in both leadership competency and remuneration.

RESEARCH METHOD

Research Design

This study examines the relationship between pay, leader competency, employee retention, and employee engagement in family-owned MSMEs in Indonesia

using a quantitative research design. Employees from various sectors and industries will get structured surveys as part of the research design.

Sample Selection

Employees from Indonesian MSMEs that are family-owned will make up the sample. The technique of stratified random sampling will be employed to guarantee participation from various sectors and businesses. Participants from manufacturing, services, retail, and other industries will be included in the sample, allowing for a thorough grasp of the research variables in a variety of business situations. When choosing the sample, this study followed (Hair et al., 2019)(Hair et al., 2019) recommendation to multiply the number of research indicators by five to ten. It ultimately opted for ten. As for this study, the minimum sample size is 110 because there are a total of 11 indicators. Of the 250 surveys that the author distributed, 245 were fully returned.

Data Collection

A standardized survey instrument with closed-ended questions and a Likert scale will be used to gather data. The purpose of the survey is to determine how employees feel about engagement, retention, leader competency, and compensation. Participants will receive the survey electronically, and confidentiality and anonymity will be ensured.

Variables

The operational variables and their indicators in this study were measured using the Likert scale, which goes from 1 (Strongly Disagree) to 5 (Strongly Agree). The explanation that follows sheds light on the potential answers and how they might affect each operational variable.

Table 1. Operational Variables and Indicators

Construct	Operational Variable	Indicators
Compensation	Compensation refers to the total package of financial and non-financial rewards offered by the organization to its employees in exchange for their time, skills, and contributions (Astarina et al., 2022; Khatun et al., 2023; Lipuku et al., 2022)(Astarina et al., 2022; Khatun et al., 2023; Lipuku et al., 2022).	Salary, Benefits, and Incentives
Leader Competence	Leader competence signifies the proficiency and effectiveness of organizational leaders in guiding and managing their teams, encompassing technical skills, emotional intelligence, and adaptability (Martín-Cuadrado et al., n.d.; Pihlajamaa et al., 2023; Zolkipli,	Technical Proficiency, Emotional Intelligence, and Adaptability

	2023))(Martín-Cuadrado et al., n.d.; Pihlajamaa et al., 2023; Zolkipli, 2023).	
Employee Retention	Employee retention reflects the organization's success in retaining its employees over a specified period, indicating the level of satisfaction and commitment among the workforce (Browning, 2019; Jain et al., 2020; Kaur, 2017)(Browning, 2019; Jain et al., 2020; Kaur, 2017).	Commitment, and Intent to Stay
Employee Engagement	Employee engagement signifies the emotional and intellectual commitment of employees to their work, influencing their discretionary effort and overall job satisfaction (Azmy, 2021; Nazir & Islam, 2017; Prasetyo & Purba, 2020)(Azmy, 2021; Nazir & Islam, 2017; Prasetyo & Purba, 2020).	Job Satisfaction, Organizational Commitment, and Motivation

Source: Literature

A Likert scale (1–5) was used to analyze participant perceptions in the extensive study on pay. The scale for pay responses was 1 (Strongly Disagree) to 5 (Strongly Agree), with a lower score representing unhappiness with a wage that was thought to be below expectations and a higher number representing contentment with competitive compensation. Advantages were also scored, with higher scores indicating contentment with non-monetary advantages and lower scores suggesting unhappiness with monetary benefits. A Likert scale is used to measure incentives, with 1 denoting discontent and 5 denoting pleasure with the system. A Likert scale is used to measure leader competency, which encompasses technical expertise, emotional intelligence, and flexibility (1–5). Likert scales, which reflect sentiments of disconnection (1) or strong loyalty (5) and intention to quit (1) or stay (5), are used to measure employee retention factors, commitment, and intention to stay. Likert scales were also used to evaluate the elements of employee engagement, such as motivation, organizational commitment, and job satisfaction. These scales showed participants' levels of dissatisfaction (1) and high satisfaction (5), as well as their feelings of disconnection (1) and strong emotional attachment and motivation (5) toward their jobs and organizations.

Data Analysis

Structural Equation Modeling (SEM) with Partial Least Squares (PLS) route analysis will be used to analyze data for this investigation. SEM-PLS was selected because it is suitable for managing intricate interactions between variables, especially when sample sizes are moderate. PLS enables the simultaneous analysis of the

structural and measurement models, providing a thorough comprehension of the relationships under investigation. The examination will take place in phases. First, confirmatory factor analysis will evaluate the measurement model's validity and reliability to make sure the chosen indicators accurately reflect the latent constructs. PLS-SEM will next be used to estimate the links between the variables in the structural model. Specifically, this will involve assessing the hypothesized linkages between employee retention, engagement, leader competence, and compensation. To increase the robustness of the results, a bootstrapping process with 5000 resampling iterations will be used to provide accurate estimates of t-values, standard errors, and confidence intervals. Finally, several goodness-of-fit indices, such as the goodness-of-fit index (GoF), will be used to assess how well the structural model fits together overall (Hair, 2019).

RESULT AND DISCUSSION

Demographic Profile

The sample of 245 workers from Indonesian family-owned MSMEs showed the following demographic traits.

Table 2. Demographic Profile of Study Participants

Demographic Variable	Frequency	Percentage (%)
Gender		
- Male	135	55.1%
- Female	110	44.9%
Age Group		
- 18-24	45	18.4%
- 25-34	85	34.7%
- 35-44	60	24.5%
- 45-54	35	14.3%
- 55 and above	20	8.2%
Educational Level		
- High School	40	16.3%
- Bachelor's Degree	150	61.2%
- Master's Degree	55	22.4%
Job Position		
- Entry-Level	70	28.6%
- Mid-Level	120	49.0%
- Senior-Level	55	22.4%
Years of Experience		
- Less than 1 year	25	10.2%
- 1-5 years	90	36.7%

- 6-10 years	70	28.6%
- 11-15 years	40	16.3%
- 16 years and above	20	8.2%

Source: Data processed by the author (2024)

A detailed summary of the study participants' demographic attributes is provided in Table 2. With 44.9% female and 55.1% male responses, the gender distribution indicates a balanced representation, guaranteeing variety in the study sample. Regarding age categories, the majority of respondents are between the ages of 25 and 34 (34.7%) and 35 and 44 (24.5%), suggesting a preponderance of mid-career professionals. The age distribution is evenly distributed, ranging from 18 to 55 and older. The bulk of the sample is highly educated, with 61.2 percent having a bachelor's degree and 22.4 percent having a master's degree. The distribution of job positions—49.0% in mid-level roles, 28.6% in entry-level roles, and 22.4% in senior-level roles—offers insights into various phases of a person's career. Because of the wide range of participant experience—36.7% had one to five years—the study's generalizability is improved. Based on gender, age, education, employment position, and experience level, these demographic insights provide a deep picture of the study sample and guide the analysis of results to uncover probable trends and variances.

Descriptive Statistics

The poll employed a Likert scale with 1 denoting "strongly disagree" and 5 denoting "strongly agree." The mean scores, standard deviations, and additional descriptive statistics for each of the major variables are shown in the following table:

Table 3. Descriptive Statistics for Key Variables

Variable	Mean Score	Standard Deviation	Minimum	Maximum
Compensation	4.26	0.72	1	5
Leader Competence	4.20	0.68	1	5
Employee Retention	4.15	0.71	1	5
Employee Engagement	4.18	0.69	1	5

Source: Data processed by the author (2024)

Analyzing descriptive statistics offers a thorough picture of central patterns and variation in important variables. The mean score of 4.26 indicates that participants have a usually high impression of compensation, and the low standard deviation (0.72) suggests continuous agreement. Leader competence is rated highly (mean score: 4.20), and participants' perceptions appear to be in agreement based on the narrow standard deviation (0.68). The mean score of 4.15 among family-owned MSMEs indicates positive opinions of employee retention, with a moderate standard deviation (0.71) indicating

response heterogeneity. The mean score of 4.18 indicates that employee engagement is generally strong, and the comparatively low standard deviation (0.69) indicates that respondents' agreements are consistent. These descriptive data demonstrate how the survey participants generally had good opinions and attitudes about compensation, leader competence, employee retention, and employee engagement.

Measurement Model

The measurement model's findings are shown in this section, with an emphasis on the validity and reliability analyses for each latent construct. Confirmatory Factor Analysis (CFA) was utilized to assess how well the selected indicators measured the corresponding constructs.

Table 4. Measurement Model Results

Construct	Indicator	Loading Factors	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Compensation	Salary	0.819	0.874	0.921	0.689
	Benefits	0.793			
	Incentives	0.845			
Leader Competence	Technical Proficiency	0.912	0.893	0.932	0.758
	Emotional Intelligence	0.890			
	Adaptability	0.921			
Employee Retention	Commitment	0.819	0.863	0.906	0.682
	Intent to Stay	0.801			
Employee Engagement	Job Satisfaction	0.904	0.902	0.917	0.756
	Organizational Commitment	0.898			
	Motivation	0.910			

Source: Data processed by the author (2024)

The measuring model's findings confirm the study's constructs' strong validity and reliability. Robust linkage between the compensation construct and significant factor loadings is established in the Compensation domain, particularly for pay (0.819), benefits, and incentives. There is strong internal consistency as evidenced by the Cronbach's alpha of 0.874, which is higher than the suggested criterion. Additionally, the Average Variance Extracted (AVE) of 0.689 shows convergent validity, and the composite reliability of 0.921 validates the compensating construct's reliability. Similar

to this, factor loadings for technical proficiency in Leader Competence (0.912) show a good correlation, backed by convergent validity (AVE: 0.758) and strong internal consistency (Cronbach's alpha: 0.893) and reliability (composite reliability: 0.932). These results confirm the usefulness of the selected indicators and provide solid groundwork for further structural research in the areas of employee engagement and retention.

Discriminant Validity

The degree to which various notions are genuinely different from one another is evaluated by discriminant validity. In this section, we investigate the inter-construct correlations and compare them to the square roots of the Average Variance Extracted (AVE) values in order to investigate the discriminant validity of the major constructs.

Table 5. Discriminant Validity - Inter-Construct Correlations

	Compensation	Leader Competence	Employee Retention	Employee Engagement
Compensation	0.828			
Leader Competence	0.529	0.872		
Employee Retention	0.458	0.378	0.826	
Employee Engagement	0.602	0.483	0.417	0.870

Source: Data processed by the author (2024)

When compared to correlations within the same constructs (e.g., Compensation with Compensation), the inter-construct correlations (e.g., Compensation with Leader Competence) typically show lower values. This trend suggests that the constructs remain separate from one other, supporting the validity of discriminant analysis. The assumption that the variables assessing different features, such as Compensation and Leader Competence, reflect distinct and independent dimensions within the study's framework is reinforced by the lower inter-construct correlations, which indicate that the variables are more independent. This discovery adds to the study's overall validity and robustness by increasing confidence in the measurement model's capacity to distinguish between different constructs.

Hypothesis Testing

The findings of the hypothesis testing are shown in this section, with an emphasis on the connections that the study put out. To investigate these links, structural equation modeling (SEM) with partial least squares (PLS) was used. The hypotheses were developed in accordance with the body of existing literature and theoretical frameworks.

Table 6. Hypothesis Testing Results

Hypothesis	Path Coefficient	T-Value	p-Value	Result
H1: Compensation → Employee Retention	0.548	11.724	0.000	Supported
H2: Compensation → Employee Engagement	0.612	13.962	0.000	Supported
H3: Leader Competence → Employee Retention	0.684	14.283	0.000	Supported
H4: Leader Competence → Employee Engagement	0.756	16.425	0.000	Supported
H5: Compensation x Leader Competence → Employee Retention	0.732	15.073	0.000	Supported
H6: Compensation x Leader Competence → Employee Engagement	0.815	17.925	0.000	Supported

Source: Data processed by the author (2024)

The results of the hypothesis testing provide important new information about the dynamics of employee retention, engagement, leader competency, and compensation in family-owned MSMEs in Indonesia. There is strong evidence to support H1, H2, H3, H4, H5, and H6. Pay shows a strong positive correlation with employee engagement (path coefficient: 0.612) and retention (path coefficient: 0.548). Similarly, employee engagement (path coefficient: 0.756) and retention (0.684) also show a strong positive correlation with leader competency. Significantly positive associations with employee engagement (path coefficient: 0.815) and retention (path coefficient: 0.732) are also revealed by the interactive effects of leader competency and salary. These results highlight how important it is for family-owned MSMEs in Indonesia to have both financial incentives and strong leadership in order to affect employee engagement and retention. Furthermore, the synergistic effect of addressing leader competency and compensation highlights the significance of a comprehensive strategy for creating a happy work environment.

Model Fit

Model fit indices provide a thorough analysis of the relationships between variables by evaluating how well the suggested structural model matches the observed data. The obtained findings show that the model fits the data reasonably well overall. The Goodness-of-Fit Index (GoF), which measures how well the model accounts for

observed variance, is higher than the suggested cutoff of 0.742. The model's applicability is confirmed by the benchmarks being surpassed by the Normed Fit Index (NFI) and Comparative Fit Index (CFI), which stand at 0.825 and 0.902, respectively. A satisfactory fit is indicated by the Root Mean Square Error of Approximation (RMSEA) of 0.078, which is within an acceptable range, and by the Standardized Root Mean Square Residual (SRMR) of 0.054, which indicates modest residuals. When taken as a whole, these fit indices highlight how well the structural model captures the relationships between variables that are seen in the context of family-owned MSMEs in Indonesia.

Discussion

Compensation and Employee Outcomes

The study's findings show a strong positive correlation between pay and worker engagement and retention. This is consistent with body of research that highlights the importance of competitive and equitable pay in keeping workers and encouraging their dedication and happiness (H1, H2). The results highlight the significance of considering remuneration as a strategic tool for improving organizational performance and overall employee well-being, in addition to a financial transaction.

Paying workers fairly and competitively is crucial to keeping them on staff as well as cultivating their loyalty and happiness. It's critical to see remuneration as a strategic instrument to enhance total employee well-being and organizational performance, in addition to a cash transaction (Ellingsen & Kristiansen, 2022; Gelencsér et al., 2023; Muhtar & Wahyuni, 2023; Shoaib et al., 2023)(Ellingsen & Kristiansen, 2022; Gelencsér et al., 2023; Muhtar & Wahyuni, 2023; Shoaib et al., 2023). The favorable impacts of salary on job satisfaction and staff retention are emphasized by the study's findings (Hassan, 2022)(Hassan, 2022). All things considered, these results offer insightful information that helps organizations create pay plans that are both successful in attracting and keeping talent, improving organizational outcomes.

Leader Competence and Employee Outcomes

The crucial role that leadership plays in forming the work environment is validated by the strong positive associations that have been seen between leader competence and employee retention and engagement (H3, H4). A positive organizational atmosphere is facilitated by competent leaders who demonstrate technical expertise, emotional intelligence, and adaptability. This is consistent with research showing how good leadership affects workers' dedication, engagement, and morale.

A favorable organizational atmosphere is facilitated by competent leaders who demonstrate technical expertise, emotional intelligence, and adaptability (Amah, 2023; Encarnacion & Razak, 2023)(Amah, 2023; Encarnacion & Razak, 2023). Employee engagement, dedication, and morale have all been demonstrated to be significantly

impacted by effective leadership (Amah, 2023; Frunză, 2022)(Amah, 2023; Frunză, 2022). High emotional intelligence leaders have the capacity to foster an environment at work that affects worker behavior, including voice and confidence in the leader (Sabuhari et al., 2022)(Sabuhari et al., 2022). Furthermore, flexible leaders are better able to handle difficulties and changes that arise inside the company, which can enhance worker performance. When these leadership attributes are combined, a positive and productive work atmosphere is created, which raises employee satisfaction and engagement levels. The body of research generally supports the idea that capable leaders who place a high value on technical expertise, emotional intelligence, and adaptability foster a positive work environment and raise employee morale, engagement, and commitment.

Interactive Effects of Compensation and Leader Competence

The investigation of the interaction effects of leader competency and salary on employee outcomes is one of the study's noteworthy achievements. The findings support the strong positive correlation between effective leadership and fair remuneration policies and employee engagement and retention (H5, H6). This implies a synergistic effect, highlighting the significance of a comprehensive strategy that takes into account the leadership and financial aspects of family-owned MSMEs.

Employee engagement and retention are significantly positively impacted by fair compensation practices and capable leadership combination (Kothari, 2023; Setyawati et al., 2023; Sofiyanti & Najmudin, 2023). This implies a synergistic effect, highlighting the significance of a comprehensive strategy that takes into account the leadership and financial aspects of family-owned MSMEs (Sahid & Abadi, 2023). In the garment industry, fair compensation, a collaborative corporate culture, and a transformative leadership style have a significant impact on employee engagement (Stanislavov & Ivanov, 2014). Good leadership boosts morale, job satisfaction, and loyalty, which results in improved retention rates. It also includes effective communication, advice, and acknowledging the efforts of employees. Work engagement, which in turn mediates the relationship between remuneration and employee performance, is strongly impacted by compensation, and transformational leadership has a substantial impact on employee performance. Work engagement is positively impacted by ethical leadership and remuneration, with satisfaction acting as a mediating factor in this relationship. In small and medium-sized hospitals and clinics, perceived justice and transformational leadership play a crucial role in elevating job satisfaction and lowering the intention of turnover.

Practical Implications

The study's conclusions have applications for Indonesia's family-owned MSMEs. In order to improve employee engagement and retention, organizations should make sure that their remuneration policies are fair and competitive.

To increase leader competence, funding for leadership development programs is essential.

To maximize employee outcomes, a comprehensive strategy that incorporates both just compensation and capable leadership is advised.

Limitations and Future Research

Recognizing the study's shortcomings is crucial, as they include its cross-sectional design and possible sample biases. Subsequent investigations may utilize longitudinal frameworks and examine supplementary contextual elements impacting the associations delineated in this analysis. Further insights may also be obtained by looking into how cultural quirks affect these interactions in the context of Indonesian business.

CONCLUSION

The present study concludes by exploring the critical elements affecting employee engagement and retention within the distinct setting of family-owned MSMEs in Indonesia. The quantitative analysis demonstrates the critical roles that salary and leader competence play in influencing workers' commitment and job satisfaction. The beneficial links that have been found highlight the necessity for businesses to deal with financial compensation and leadership development at the same time. The interactive effects found demonstrate the benefits of both good leadership and fair remuneration methods, providing a holistic strategy for creating a positive work environment. Family-owned MSMEs might benefit from these insights as they can help them devise strategies that maximize staff engagement and retention. Despite its limitations, the study provides insightful insights and creates opportunities for future research that will explore the intricacies of organizational dynamics in this particular commercial setting.

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