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ADVANCING EMPLOYEE RETENTION THROUGH COMPENSATION: MEDIATING ROLES OF BLUE OCEAN LEADERSHIP AND WORK ENGAGEMENT IN HUMAN CAPITAL VALUE AMONG GEN Z

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ABSTRACT

This study examines the relationship between compensation and employee retention, with a focus on the mediating roles of Blue Ocean Leadership and Employee Work Engagement among Generation Z employees in West Java. Grounded in Social Exchange Theory, the research highlights how compensation influences retention directly and indirectly. Using Partial Least Squares-Structural Equation Modeling (PLS-SEM), data were collected from 217 respondents representing various industries. The results reveal that compensation has a significant positive impact on employee retention. Furthermore, Blue Ocean Leadership and Employee Work Engagement mediate this relationship, though their effects are relatively limited. The findings underscore the importance of integrating financial incentives with innovative leadership practices and engagement strategies to improve retention rates. Practical implications suggest that organizations should enhance compensation frameworks while fostering inclusive leadership and meaningful engagement initiatives. Future research should explore additional mediators and longitudinal impacts to deepen understanding of these dynamics.

Keywords: Human Resource Management, Human Capital Management, Blue Ocean Leadership, Employee Retention, Employee Work Engagement

INTRODUCTION

The dynamic changes brought about by globalization have had a significant impact on the economic growth of industries worldwide. Rapid industrial development has heightened competition between local and international companies. Meylianti and Mulia (2009) emphasize that this competitive pressure drives organizations to achieve excellence through innovation to remain viable in the globalized era. To overcome these challenges, strategic reforms are necessary, focusing on a comprehensive analysis of an organization's strengths, weaknesses, opportunities, and threats. One of the key elements in achieving competitive advantage is having a high-quality workforce, which serves as the driving force behind organizational success.

Generation Z, which is increasingly dominating the workforce, presents new challenges for human resource management practices. According to Bencsik et al. (2016), this generation influences technological development, organizational regulations, and workplace facilities. However, this

generational shift also brings challenges, such as low organizational commitment and difficulties in handling work pressures. If left unaddressed, these issues could lower employee retention rates and threaten the sustainability of organizations.

At the strategic level, human resource management, especially through compensation, plays a vital role. Effective compensation not only serves as recognition for employee contributions but also acts as a motivator to improve retention. A survey conducted by IDN Times News (2024) found that 78% of Gen Z respondents stated that compensation, including salary and benefits, is the primary factor influencing their decision to remain with a company.

However, previous studies have shown varied results regarding the relationship between compensation and employee retention. Some studies, such as Gayatri & Muttaqiyathun (2020) and Lila Maria Kaban & Umi Kulsum (2023), found a significant positive effect, while others, such as Shoaib et al. (2023), showed no significant impact. These differing findings highlight the need for additional variables that can provide a more comprehensive explanation of this relationship.

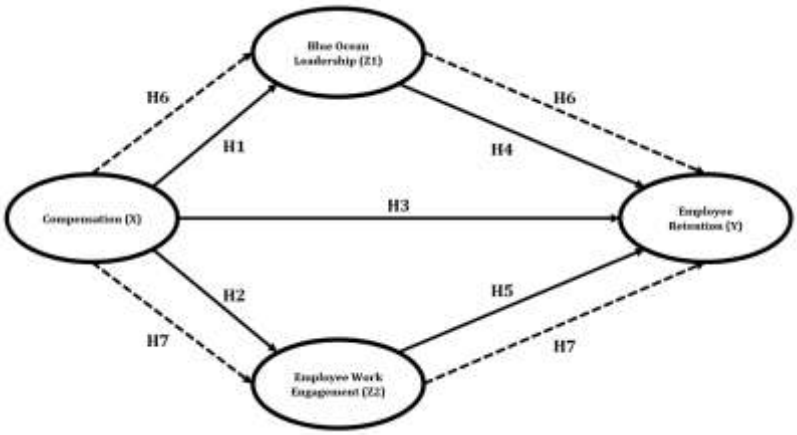
In this context, Blue Ocean Leadership (BOL) and Employee Work Engagement are identified as potential mediating variables. BOL focuses on leadership innovation, creating unique value, and empowering employees through an inclusive and strategic leadership approach (Kim & Mauborgne, 2017). On the other hand, Employee Work Engagement refers to the emotional involvement and commitment of employees to their work, which is recognized as one of the key factors in employee retention (Ali et al., 2024). Jian et al. (2020) demonstrated that a combination of Blue Ocean Leadership and employee engagement can enhance loyalty, thus strengthening the relationship between compensation and employee retention.

This study aims to examine the mediating roles of Blue Ocean Leadership and Employee Work Engagement in the relationship between compensation and employee retention. The focus of the research is on Generation Z employees in West Java, with Structural Equation Modeling (SEM) employed to test the hypotheses. It is expected that the findings will contribute theoretically to the development of Social Exchange Theory and provide practical recommendations for improving employee retention in the modern era.

METHOD

This research was conducted using quantitative methods, focusing on examining the relationships between compensation, Blue Ocean Leadership, employee work engagement, and employee retention. The study integrates three latent constructs: Compensation (independent variable), Blue Ocean Leadership and Employee Work Engagement (mediating variables), and Employee Retention (dependent variable). These constructs form the core of the conceptual framework, which is developed to test the following hypotheses (Figure 1):

Figure 1. Research Model
Source: Created by Authors (2024)



Hypotheses:

H1 : Compensation has a positive and significant direct effect on Blue Ocean Leadership

H2 : Compensation has a positive and significant direct effect on Employee Work Engagement

H3 : Compensation has a positive and significant direct effect on Employee Retention

H4 : Blue Ocean Leadership has a positive and significant direct effect on Employee Retention

H5 : Employee Retention Employee Work Engagement has a positive and significant direct effect on Employee Retention

H6 : Blue Ocean Leadership mediates the indirect relationship between Compensation and Employee Retention

H7 : Employee Work Engagement mediates the indirect relationship between Compensation and Employee Retention

The population of this study comprises Generation Z employees working in companies located across West Java Province. The sampling method employed is purposive sampling, which involves selecting participants based on specific characteristics aligned with the research objectives. According to Andrade (2021), purposive sampling is a non-random sampling technique where researchers deliberately choose participants who possess attributes relevant to the study's aims. This method enables researchers to intentionally select individuals whose qualities align with the research questions, ensuring that the sample reflects the desired characteristics of the target population (Campbell et al., 2020). Unlike random sampling, purposive sampling focuses on individuals who can provide valuable insights into the research topic, resulting in a more targeted and in-depth analysis of the phenomenon under investigation. The specific characteristics of the sample in this study include:

1. Generation Z employees aged 17–29, representing the working-age population.
2. Employees working in companies based in West Java Province.
3. A sample size determined using the minimum requirements for PLS-SEM (Partial Least Squares-Structural Equation Modeling) analysis. Kusnendi and Ciptagustia (2023), referencing (Hair et al., 2019) recommend a sample size

exceeding 100 for PLS-SEM. Furthermore, larger sample sizes enhance the precision and consistency of PLS-SEM results.

This sampling approach ensures that the selected respondents are representative of the study's population and capable of providing meaningful data to address the research objectives effectively. The descriptive findings of the respondents provide valuable insights into their demographic and occupational characteristics. In terms of gender, the sample consisted of 114 women (52.5%) and 105 men (48.4%). Regarding age distribution, respondents aged 17–19 years accounted for 3 individuals (1.4%), those aged 20–23 years comprised 31 individuals (14.3%), respondents aged 24–26 years formed the majority with 123 individuals (56.7%), and those aged 27–29 years included 64 individuals (29.5%). In terms of marital status, most respondents were single, totaling 187 individuals (86.2%), while 31 respondents (14.3%) were married.

The job positions held by the respondents varied, with the majority working as staff members (157 individuals, 72.4%), followed by supervisors (24 individuals, 11.1%), managers (6 individuals, 2.8%), and other roles (32 individuals, 14.7%). The respondents were also employed in different types of companies: 142 individuals (65.4%) worked in private companies, 8 (3.7%) in multinational companies, 15 (6.9%) in public companies (BUMN), 17 (7.8%) in start-ups, 8 (3.7%) in non-profit organizations, 16 (7.4%) in government companies, and 20 (9.2%) in other types of companies.

In terms of monthly salaries, the majority of respondents (118 individuals, 54.5%) earned IDR 3,370,500 or less, followed by 68 individuals (31.3%) earning IDR 3,370,501–7,000,000, 29 individuals (13.4%) earning IDR 7,000,001–11,000,000, and 2 individuals (0.9%) earning more than IDR 11,000,000. Regarding work experience, 22.1% of respondents had less than one year of experience, while the majority (72.8%) had worked for 1–5 years. These findings offer a comprehensive overview of the respondents' profiles, providing a strong foundation for the analysis of this study.

The data collection process was conducted using an online questionnaire distributed through Google Forms. The respondents' perceptions were measured using a 5-point Likert scale, which captured varying levels of agreement or disagreement. The use of the 5-point Likert scale was chosen due to its inclusion of a midpoint, allowing respondents to express neutral opinions and enabling the analysis of moderate responses (De Rezende & De Medeiros, 2022).

Each latent variable in this study was measured through multiple items designed to capture its dimensions comprehensively. Compensation was measured through sub-variables such as salary and wages, incentives, allowances, and facilities, adapted from studies by Kaban and Kulsum (2024) and Firdaus et al. (2024). Blue Ocean Leadership included dimensions such as forward-thinking, self-development, empowerment, effective communication, motivation, and Genba-Kaizen practices, based on indicators by Loh et al. (2018) and

Pujianto et al. (2023). Employee Work Engagement was measured through elements of personal engagement, job characteristics, and resilience, as proposed by Bora Ly (2024). Finally, Employee Retention included dimensions such as organizational components, career opportunities, and rewards, referring to constructs by Kaban and Kulsum (2024) and Ndiango et al. (2024).

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The data analysis for this study will employ Partial Least Squares-Structural Equation Modeling (PLS-SEM), a robust technique suitable for examining complex relationships among latent variables in exploratory and predictive research. The analysis will follow a two-step process: the Measurement Model Evaluation and the Structural Model Evaluation. The Measurement Model Evaluation involves assessing convergent validity, internal consistency reliability, and discriminant validity. Convergent validity will be determined through factor loadings (≥0.7) and Average Variance Extracted (AVE ≥0.5). Internal consistency reliability will be evaluated using Cronbach's Alpha (≥0.7) and Composite Reliability (CR ≥0.7). Discriminant validity will be established using the Fornell-Larcker criterion and the Heterotrait-Monotrait Ratio (HTMT), with thresholds set at HTMT <0.85 or <0.90 (Hair et al., 2021). These criteria ensure that the measurement model is valid and reliable for subsequent analysis (Cho & Kim, 2015; Hair et al., 2019, 2019; Henseler et al., 2014).

The Structural Model Evaluation will focus on analyzing path coefficients, the coefficient of determination (R^2), predictive relevance (Q^2), and effect size (f^2). Path coefficients will be tested for statistical significance using p-values (<0.05) and confidence intervals to validate the hypothesized relationships among constructs. The R^2 values will be used to assess the explanatory power of the

model, categorized as substantial (≥0.75), moderate (≥0.50), or weak (≥0.25). Predictive relevance (Q^2) will be assessed to determine the model's ability to predict outcomes accurately, while the effect size (f^2) will measure the relative influence of exogenous variables on endogenous variables. This analytical approach is designed to comprehensively evaluate both the direct and indirect effects within the research framework, providing the foundation for hypothesis testing once the data is processed (Hair et al., 2019; Henseler et al., 2014; Lachowicz et al., 2018; Shmueli et al., 2019).

RESULT AND DISCUSSION

1. PLS SEM-Measurement Model Evaluation

a. Convergent Validity and Internal Consistency Reliability

The evaluation of convergent validity was conducted by analyzing the factor loadings of each indicator and the Average Variance Extracted (AVE) for each construct (Table 1). An indicator is considered valid if its factor loading exceeds 0.4 or, preferably, 0.7. The findings reveal that all indicators meet the required thresholds, indicating adequate convergent validity for the measurement model. Furthermore, the AVE values for all constructs are above 0.5, confirming that the model demonstrates sufficient convergent validity across all variables.

Internal consistency reliability was assessed using Cronbach's Alpha (CA) and Composite Reliability (CR) values, with acceptable thresholds of 0.5 or 0,7 higher. The results indicate that all constructs exhibit CA and CR values exceeding the recommended thresholds. This suggests that the measurement model possesses a high level of internal consistency reliability, ensuring that the indicators consistently measure their respective constructs.

Table 1. Convergent Validity and Internal Consistency Reliability

Variable	Indicator	Outer Loading	Cronbach's Alpha (CA)	Composite Reliability (CR)	Average Variance Extracted (AVE)
Compensation (X)	X1_1	0.829	0.835	0.884	0.605
	X1_2	0.675			
	X1_3	0.819			
	X1_4	0.821			
	X1_5	0.733			
Blue Ocean Leadership (Z1)	Z1_3	0.766	0.536	0.764	0.519
	Z1_4	0.701			
	Z1_6	0.693			
Employee Work Engagement (Z2)	Z2_1	0,693	0.518	0.750	0.503
	Z2_2	0,662			
	Z2_6	0,691			
Employee Retention (Y)	Y1_1	0,757	0.872	0.900	0.530
	Y1_10	0,742			
	Y1_3	0,669			
	Y1_4	0,785			

Y1_5	0,712
Y1_6	0,774
Y1_7	0,707
Y1_8	0,685

Source: Modified by Authors

b. Discriminant Validity

The discriminant validity of the measurement model was evaluated using two approaches: the Fornell-Larcker criterion and the Heterotrait-Monotrait Ratio (HTMT). Based on Table 2, the square root of AVE for each construct was found to be greater than the correlations between that construct and others, satisfying the Fornell-Larcker criterion. This indicates that each construct is distinct from the others, demonstrating good discriminant validity.

Table 2. Fornell-Larcker Criterion

	Blue Ocean Leadership (Z1)	Compensation (X)	Employee Retention (Y)	Employee Work Engagement (Z2)
Blue Ocean Leadership (Z1)	0.720			
Compensation (X)	0.545	0.778		
Employee Retention (Y)	0.697	0.610	0.728	
Employee Work Engagement (Z2)	0.421	0.371	0.551	0.710

Source: Modified by Authors

The HTMT values were analyzed under two conditions: (1) all HTMT values are below 0.85 or 0.90, and (2) the 95% confidence interval (CI) for the bootstrapped HTMT values does not include 1 (Hair, Jr et al., 2017). The findings (Table 3) confirm that the HTMT values across all constructs are below 0.85 or 0.90, satisfying the discriminant validity requirements. This ensures that the constructs are not overly correlated and measure distinct concepts.

Table 3. HTMT Analysis

	Blue Ocean Leadership (Z1)	Compensation (X)	Employee Retention (Y)	Employee Work Engagement (Z2)
Blue Ocean Leadership (Z1)				
Compensation (X)	0.809			
Employee Retention (Y)	0.989	0.701		
Employee Work Engagement (Z2)	0.745	0.564	0.781	

Source: Modified by Authors

2. PLS-SEM Structural Model Evaluation

a. Convergent Validity and Internal Consistency Reliability Variance Inflation Factor (VIF) Evaluation

The evaluation of collinearity issues among the latent variables was conducted using the Variance Inflation Factor (VIF). Collinearity is a critical consideration in structural model evaluation, as it can compromise the stability and accuracy of parameter estimates. According to Hair et al. (2021), VIF values below 5 indicate the absence of significant multicollinearity among the variables.

The findings reveals, based on Table 4 that all VIF values in the structural model are below the threshold of 5, confirming that the model is free from multicollinearity issues. This result strengthens the robustness of the parameter estimates in this study, ensuring that the relationships among constructs are not biased due to collinearity. Consequently, the structural model is deemed suitable for further analysis of direct and indirect effects, providing a reliable foundation for hypothesis testing.

Table 4. Variance Inflation Factor (VIF) Evaluation

	Blue Ocean Leadership (Z1)	Employee Retention (Y)	Employee Work Engagement (Z2)
Blue Ocean Leadership (Z1)		1.544	
Compensation (X)	1.000	1.473	1.000
Employee Retention (Y)			
Employee Work Engagement (Z2)		1.259	

Source: Modified by Author

b. Testing the Hypotheses – Direct Effect

The structural model evaluation involved testing the direct effects of the independent variables on the mediating and dependent variables (Table 5). The analysis was conducted by assessing the R^2, Q^2, and f^2 values, as well as the statistical significance (p-value) and confidence intervals (CIBC).

Table 5. Direct Effect Analysis

Model	Path Coefficient	*p*-value	95%CIBC		R^2	Q^2	Effect Size f^2
			2,50%	97,50%			
Blue Ocean Leadership (Z1) Model					0.293	0.143	
Compensation (X) -> Blue Ocean Leadership (Z1)	0.545	0.000	0.410	0.647			0.422
Employee Work Engagement (Z2) Model					0.134	0.066	

Compensation (X) -> Employee Work Engagement (Z2)	0.371	0.000	0.220	0.497			0.160
Model Employee Retention (Y)					0.612	0.314	
Compensation (X) -> Employee Retention (Y)	0.274	0.000	0.159	0.384			0.134
Blue Ocean Leadership (Z1) -> Employee Retention (Y)	0.436	0.000	0.296	0.558			0.321
Employee Work Engagement (Z2) -> Employee Retention (Y)	0.265	0.000	0.138	0.397			0.146

Source: Modified by Authors

Blue Ocean Leadership Model (H1)

The R^2 value for the Blue Ocean Leadership model is 0.293, indicating that 29.3% of the variance in Blue Ocean Leadership is explained by the independent variable, while the remaining 70.7% is attributed to other factors not included in the model. The Q^2 statistic for this model is 0.143, which is greater than 0, demonstrating adequate predictive relevance for the variable. Hypothesis H1 is significant ($p < 0.05$; 95% CIBC ≠ 0), and the effect size (f^2) is categorized as large, reflecting a substantial impact of the independent variable on Blue Ocean Leadership.

Employee Work Engagement Model (H2)

The R^2 value for the Employee Work Engagement model is 0.134, indicating that 13.4% of the variance in Employee Work Engagement is explained by the independent variable, while 86.6% is due to other unexplained factors. The Q^2 statistic for this model is 0.066, which is greater than 0, confirming adequate predictive relevance. Hypothesis H2 is significant ($p < 0.05$; 95% CIBC ≠ 0), and the effect size (f^2) is categorized as medium, indicating a moderate influence of the independent variable on Employee Work Engagement.

Employee Retention Model (H3, H4, H5)

The R^2 value for the Employee Retention model is 0.612, meaning that 61.2% of the variance in Employee Retention is explained by the independent and mediating variables, with the remaining 38.8% attributed to other factors. The Q^2 statistic for this model is 0.314, which is greater than 0, demonstrating strong predictive relevance for the dependent variable. Hypothesis H3 is significant ($p < 0.05$; 95% CIBC ≠ 0), with a medium effect size (f^2). Hypothesis H4 is also significant ($p < 0.05$; 95% CIBC ≠ 0) and has a large effect size (f^2), highlighting the substantial impact of Blue Ocean Leadership on Employee Retention. Lastly, Hypothesis H5 is significant ($p < 0.05$; 95% CIBC ≠ 0) with a medium effect size (f^2), indicating a moderate

influence of Employee Work Engagement on Employee Retention.

Overall, these results confirm the significant direct effects of the independent and mediating variables on the dependent variables, providing robust support for the proposed hypotheses.

c. Testing the Hypotheses – Indirect Effect

The evaluation of the indirect effects focused on assessing the mediating roles of Blue Ocean Leadership and Employee Work Engagement in the relationship between Compensation and Employee Retention. The analysis was conducted to determine the extent to which these mediators influence the structural paths within the research model (Table 6).

Table 6. Indirect Effect Analysis

Model	Spesific Indirect Effect	*p*-value	95%CIBC		Result	Effect Size Upsilon (v)
			2,50 %	97,50 %		
Compensation (X) -> Blue Ocean Leadership (Z1) -> Employee Retention (Y)	0.237	0.000	0.151	0.334	Accepted	0,056
Compensation (X) -> Employee Work Engagement (Z2) -> Employee Retention (Y)	0.098	0.003	0.044	0.173	Accepted	0,010

Source: Modified by Authors

Mediating Role of Blue Ocean Leadership (H6)

The results indicate that Blue Ocean Leadership mediates the indirect relationship between Compensation and Employee Retention. However, the structural impact of this mediation is categorized as small or weak. This suggests that while Blue Ocean Leadership contributes to the relationship, its influence is limited in magnitude, highlighting the need for further exploration of other potential mediators or additional factors that could strengthen this pathway.

Mediating Role of Employee Work Engagement (H7)

Similarly, Employee Work Engagement is found to mediate the indirect relationship between Compensation and Employee Retention. The structural impact of this mediation is also categorized as small or weak. This indicates that although Employee Work Engagement plays a role in bridging the influence of Compensation on Employee Retention, its effect is relatively minor, warranting further investigation into other mechanisms that may enhance this relationship.

Overall, these findings underscore the limited mediating effects of Blue Ocean Leadership and Employee Work Engagement, suggesting that the direct pathways may have a stronger impact on Employee Retention than the indirect mechanisms within this model.

d. Goodness of Fit

The evaluation of the Goodness of Fit (GoF) for the model was conducted using statistical measures including the Standardized Root Mean Square Residual (SRMR), Unweighted Least Squares Discrepancy (d-ULS), and Geodesic Discrepancy (d_G). According to Henseler et al. (2016), models can be deemed unfit if these statistical values exceed their estimated thresholds at the 95% Confidence Interval (CI).

In this study, the SRMR value was found to be 0.081, which is below the conservative threshold of 0.10 as recommended by Hair, Jr. et al. (2021) and Henseler (2014). This indicates that the model avoids misspecification and can be considered a good fit for the data. While the d-ULS and d_G values exceeded their estimated thresholds, the SRMR result suggests that the research model is generalizable to the population. The SRMR value also aligns with the criteria proposed by Hu and Bentler (1999), further supporting the validity of the model.

e. PLS Predict

The PLS Predict analysis was employed to evaluate the predictive performance of the research model. The findings reveal that for most measurement items of the endogenous variables, the model demonstrated a Q^2 Predict PLS > Q^2 Predict LM, indicating that the PLS model outperformed the linear regression (LM) benchmark in predictive relevance. Additionally, the root mean square error (RMSE) and mean absolute error (MAE) values for the PLS model were lower than those for the LM model, specifically RMSE PLS < RMSE LM and MAE PLS < MAE LM.

These results indicate that the proposed model has medium predictive power in explaining the influence of the exogenous variables on the endogenous constructs (Shmueli et al., 2019). This suggests that the model can reliably predict outcomes and provides valuable insights into the relationships examined within the study.

DISCUSSION

The findings of this study strongly align with the principles of Social Exchange Theory (SET), which emphasizes the reciprocal relationship between individuals and organizations. As posited by Homans (1958), SET suggests that employees evaluate the fairness of their rewards relative to their contributions. This study's significant findings on the direct effects of Compensation on Blue Ocean Leadership, Employee Work Engagement, and Employee Retention provide empirical support for the theory. The results demonstrate that when organizations offer fair and meaningful compensation, employees respond positively through increased engagement, innovative leadership practices, and greater retention, validating the fundamental tenets of SET (Ahmad et al., 2023).

The significant relationship between Compensation and Blue Ocean Leadership (H1) highlights how adequate rewards encourage employees to adopt forward-thinking behaviors and leadership practices that benefit the organization. This aligns with SET's notion of distributive justice, where employees reciprocate fair treatment with contributions that enhance organizational innovation. Compensation serves as a key driver that motivates leaders to foster empowerment, effective communication, and creative problem-

solving, as suggested by (Al Nsour, 2016; Ellinger et al., 2020; Jian et al., 2020; Kim & Mauborgne, 2017)

The findings also demonstrate a significant relationship between Compensation and Employee Work Engagement (H2). According to SET, employees who perceive that they are adequately compensated for their efforts are more likely to experience a sense of obligation and emotional connection to their work. This emotional investment translates into higher engagement, where employees derive intrinsic satisfaction and meaning from their roles, reinforcing the reciprocal exchange dynamic. These results are consistent with prior studies (Das & Malik, 2024; Guest, 2014; Kwon et al., 2024; Ly, 2024) that highlight engagement as a key outcome of perceived fairness in the workplace.

The strong direct effect of Compensation on Employee Retention (H3), as well as the significant influence of Blue Ocean Leadership (H4) and Employee Work Engagement (H5) on retention, further supports SET's emphasis on mutual benefits. Employees who receive appropriate rewards and experience positive leadership and engagement are more likely to remain committed to the organization (Ahmad et al., 2023). The large effect size observed for Blue Ocean Leadership underscores the importance of leadership practices that foster a supportive and innovative work environment, while the medium effect size for Employee Work Engagement reflects the role of meaningful work experiences in enhancing retention (Ali et al., 2024).

Interestingly, the weak mediating roles of Blue Ocean Leadership and Employee Work Engagement in the relationship between Compensation and Employee Retention provide nuanced insights into the application of SET. While compensation has a strong direct effect, the limited indirect influence of these mediators suggests that employees may prioritize tangible rewards over the indirect benefits of leadership and engagement when evaluating their organizational exchange (Lila Maria Kaban & Umi Kulsum, 2023; Shoaib et al., 2023). This highlights the need for organizations to strengthen the overall exchange framework by integrating both tangible and intangible elements, such as career growth opportunities and supportive workplace culture, to enhance retention outcomes.

Finally, the Goodness of Fit and PLS Predict results confirm the relevance and applicability of the research model in supporting the principles of SET (Henseler et al., 2014; Lachowicz et al., 2018; Shmueli et al., 2019). The predictive power of the model demonstrates that the relationships among Compensation, Blue Ocean Leadership, Employee Work Engagement, and Employee Retention can be generalized to Generation Z employees, who place significant value on fair treatment and meaningful work. By validating the reciprocal exchange mechanisms proposed by SET, this study provides both theoretical and practical contributions to understanding employee behavior in dynamic organizational contexts.

These findings bridge the research gap identified in the background and reinforce the relevance of SET in explaining the interplay between rewards, leadership, engagement, and retention. Future research could

expand on these insights by incorporating additional mediators, such as organizational trust or psychological safety, to further enhance the explanatory power of SET in contemporary work environments.

CONCLUSION

This study highlights the pivotal role of compensation in enhancing employee retention among Generation Z workers in West Java. By integrating Blue Ocean Leadership and Employee Work Engagement as mediating variables, the research provides a nuanced understanding of how compensation indirectly impacts retention. The findings validate Social Exchange Theory by demonstrating that equitable compensation fosters loyalty and reduces turnover intentions, while innovative leadership practices and heightened engagement further strengthen organizational stability. This synthesis underscores the necessity for organizations to adopt comprehensive strategies that integrate financial and non-financial motivators in retaining their workforce.

The implications of this research extend to both theoretical and practical domains. Theoretically, the study enriches the discourse on employee retention by elucidating the mediating roles of leadership and engagement, thus offering empirical support for the dynamic interplay between compensation and retention. Practically, the findings provide actionable insights for human resource professionals in designing retention strategies that leverage competitive compensation, inclusive leadership, and active engagement practices. These strategies are particularly critical in addressing the unique characteristics and expectations of Generation Z employees, who prioritize recognition, meaningful work, and personal development.

Future research could explore additional mediating factors, such as organizational culture or psychological safety, to provide a more holistic understanding of employee retention dynamics. Longitudinal studies are also recommended to examine the sustainability of compensation and leadership impacts over time. Moreover, extending the research scope to include diverse demographic and geographic contexts could enhance the generalizability of the findings. By addressing these avenues, future research can further contribute to developing innovative and effective retention strategies in an ever-evolving organizational landscape.

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