

*Research Article*

## The Effect of Workplace Democracy and Compensation on Employee Retention: The Mediating Role of Job Satisfaction among Coffee Shop Employees in Pangkalpinang City

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**Abstract:** This study aims to analyze the influence of workplace democracy and compensation on employee retention in coffee shop employees in Pangkalpinang City, with job satisfaction as a mediating variable. Using a quantitative approach with a comparative causal design, data was collected through an online survey distributed to employees working in the local coffee shop industry. This study examines the direct influence of workplace democracy and compensation on job satisfaction and employee retention, while assessing the mediating role of job satisfaction in these relationships. The results of the study show that workplace democracy and compensation have a positive and significant influence on job satisfaction and employee retention. In addition, job satisfaction has been shown to mediate the relationship between workplace democracy and compensation and employee retention, thereby improving understanding of the psychological mechanisms that drive workforce sustainability in the creative small business sector. These findings contribute to the development of literature on democratic participation and compensation practices in the context of small businesses, and provide practical implications for business owners and policymakers to design more equitable, participatory, and sustainable employment strategies to improve employee stability and loyalty in the coffee shop industry.

**Keyword:** Creative Endeavors; Democracy At Work; Employee Compensation; Employee Retention; Job Satisfaction

### 1. Introduction

The rapid expansion of the coffee shop industry in Indonesia over the past decade reflects a broader shift in the consumption patterns of urban communities. Coffee shops have evolved beyond their traditional function as places to purchase beverages and have increasingly become social hubs, informal workspaces, and symbolic sites of creative lifestyle expression. In Pangkalpinang, this trend has supported the growth of the creative service sector, positioning coffee shops as significant contributors to the local economic landscape. Such developments highlight the strategic role of service-based enterprises in regional economic progress.

Despite this growth, the industry faces persistent challenges in sustaining stable human resource management practices. One of the most prominent issues is the high rate of employee turnover, which indicates limited emotional attachment and organizational commitment among workers. High turnover disrupts operational continuity, affects service quality, and increases recruitment and training costs. In small-scale service businesses such as coffee shops, the retention of employees is particularly vital, as the customer experience is closely tied to direct interpersonal interactions between baristas and customers.

Employee retention is shaped by multiple dimensions of the work environment, including managerial practices, socio-emotional support, and reward structures. Among the factors

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frequently discussed in organizational and human resource literature are workplace democracy and compensation systems. Workplace democracy refers to the degree to which employees have opportunities to voice their opinions, participate in decision-making, and receive recognition for their contributions. Compensation, in turn, encompasses the perceived fairness and adequacy of rewards relative to employee effort and skills. Both factors play a central role in shaping worker perceptions of value, dignity, and appreciation in the workplace.

Meanwhile, job satisfaction functions as a psychological mechanism that mediates the relationship between workplace conditions and employees' intention to remain within an organization. When employees perceive that their workplace acknowledges their participation, provides equitable rewards, and supports interpersonal respect, they are more likely to experience positive emotional evaluations of their work. Higher job satisfaction consequently lowers turnover intentions and strengthens organizational commitment. Therefore, incorporating job satisfaction as a mediating variable is essential for understanding how managerial practices translate into retention outcomes.

Although previous studies have examined the influence of workplace democracy, compensation, and job satisfaction on employee retention, most of the existing research has focused on formal sectors such as finance, education, or manufacturing. The coffee shop industry, characterized by flexible organizational structures, informal managerial systems, and interpersonal work dynamics, remains relatively underexplored in this context. This gap suggests the need for empirical investigation tailored to the dynamics of micro and small creative enterprises.

Furthermore, the workforce in coffee shops is predominantly composed of young employees who hold work values distinct from previous generations. Younger workers tend to prioritize personal meaning, collaborative environments, and egalitarian work relationships over purely financial incentives. Thus, retention strategies in this sector must address not only material needs but also relational and psychological expectations. Democratic workplace practices and equitable compensation models may therefore be particularly relevant in maintaining loyalty among younger service workers.

Given these considerations, this study aims to examine the influence of workplace democracy and compensation on employee retention, with job satisfaction serving as a mediating variable, within the coffee shop industry in Pangkalpinang. The findings of this study are expected to contribute to the theoretical development of human resource management in creative service sectors and to offer practical recommendations for business owners and policymakers in designing sustainable employment strategies that support both organizational continuity and worker well-being.

### Research Purpose

The primary purpose of this study is to examine the influence of workplace democracy and compensation on employee retention, with job satisfaction serving as a mediating variable among coffee shop employees in Pangkalpinang City. Specifically, this research aims to:

- a. Analyze the direct effect of workplace democracy on job satisfaction;
- b. Analyze the direct effect of compensation on job satisfaction;
- c. Examine the direct influence of workplace democracy on employee retention;
- d. Examine the direct influence of compensation on employee retention;
- e. Investigate the mediating role of job satisfaction in the relationship between workplace democracy and employee retention; and
- f. Investigate the mediating role of job satisfaction in the relationship between compensation and employee retention.

## 2. Literature Review

### Workplace Democracy

Workplace democracy refers to organizational arrangements that enable employees to participate meaningfully in decision-making processes affecting their work and organizational outcomes. This concept encompasses practices such as shared decision-making, consultative communication, and participatory leadership structures (Müller & Siegrist, 2020). Workplace democracy aims to create a more inclusive work environment in which employees are recognized as essential stakeholders rather than passive labor contributors. This approach contrasts with traditional hierarchical management models that concentrate authority solely at the upper levels of the organization.

Beyond ethical considerations related to fairness and human dignity, workplace democracy has strategic functional benefits. Research indicates that when employees are empowered to express ideas and contribute to operational decisions, they develop stronger psychological ownership and internal motivation (Sartori & Van der Meer, 2021). This sense of involvement strengthens affective organizational commitment and enhances productivity by aligning employee interests with organizational objectives. Participatory practices can also facilitate better problem-solving, as decision-making incorporates diverse insights from workers closest to operational challenges.

In service-intensive work environments such as coffee shops, workplace democracy plays a particularly crucial role due to the relational and collaborative nature of daily tasks. Employees who are granted autonomy in customer interaction and operational flexibility tend to experience higher levels of engagement and emotional satisfaction (Dewi & Nugroho, 2021). Such environments encourage workers to innovate in service delivery and develop customer rapport, both of which are vital to sustaining competitive differentiation in the service sector. Therefore, workplace democracy is expected to have both direct and indirect implications for job satisfaction and employee retention.

### Compensation

Compensation represents the total set of financial and non-financial rewards provided to employees in exchange for their contributions to organizational processes. Financial compensation includes wages, incentives, allowances, and performance bonuses, while non-financial elements encompass recognition, career development opportunities, and flexible work arrangements (Hasibuan, 2020). A well-structured compensation system reflects an organization's commitment to fairness and equity, signaling institutional appreciation for employee efforts. Perceived fairness of compensation is a central determinant of positive employee attitudes and loyalty.

Prior studies consistently demonstrate that compensation has a direct influence on job satisfaction and retention intentions. Employees who perceive compensation as fair and competitive are more likely to display stronger organizational commitment and lower intentions to leave (Suryani, 2021). Conversely, inadequate or inequitable compensation may result in feelings of exploitation, decreased motivation, and increased turnover (Allen, Bryant, & Vardaman, 2021). Thus, compensation structures must be designed not only to meet market standards but also to reflect internal equity relative to employee skill and responsibility.

In the coffee shop industry, compensation holds unique significance due to generally modest wage structures and physically demanding workloads. Many employees in this sector are young workers seeking both financial stability and work experience. Transparent and performance-aligned compensation systems can therefore function as both extrinsic motivators and sources of social recognition (Lestari, 2023). When employees believe that their efforts

are valued and rewarded proportionately, they become more inclined to remain loyal to the organization, thereby supporting long-term workforce stability.

### **Job Satisfaction**

Job satisfaction is defined as an individual's overall emotional evaluation of their work experience, reflecting the degree to which one's job meets personal expectations, needs, and values (Robbins & Judge, 2022). This construct encompasses cognitive and affective dimensions, including perceptions of the work environment, fairness of managerial practices, interpersonal relationships, and reward adequacy. Job satisfaction is widely acknowledged as a key indicator of organizational well-being, influencing both psychological outcomes and behavioral responses among employees.

A substantial body of research demonstrates that job satisfaction plays a mediating role between workplace conditions and employee behavioral outcomes. When employees perceive supportive leadership, participatory decision-making, and fair compensation, their level of job satisfaction increases, which subsequently enhances commitment and reduces turnover intentions (Afandi, 2021). Satisfied employees are more likely to engage in positive organizational behaviors, such as discretionary effort, service courtesy, and cooperation with colleagues, all of which contribute to improved overall performance.

Within coffee shop work environments, job satisfaction is influenced not only by compensation and task design but also by interpersonal climate and personal identity expression. Service employees often derive satisfaction from meaningful social interaction and from environments that encourage creativity, authenticity, and teamwork (Wijaya & Lestari, 2023). Thus, job satisfaction in this context extends beyond material factors and includes emotional and relational dimensions. Understanding these dynamics is essential to explaining how workplace democracy and compensation contribute to employee retention.

### **Employee Retention**

Employee retention refers to an organization's capacity to maintain its workforce over time by ensuring that employees choose to remain rather than seek employment elsewhere (Mathis & Jackson, 2021). Retention is not merely the absence of turnover, but a reflection of psychological attachment to the organization. High retention rates indicate that employees perceive alignment between their personal goals and organizational conditions, whereas persistent turnover signals systemic dissatisfaction or competitive disadvantages.

Employee retention is shaped by multiple organizational and individual factors, including working conditions, compensation fairness, leadership style, opportunities for growth, and job satisfaction (Tambak, Fadli, & Mahendra, 2022). Effective retention strategies go beyond providing financial incentives and involve cultivating an environment in which employees feel respected, empowered, and valued. When employees perceive that their skills and contributions are acknowledged, they are more inclined to develop long-term commitment to the organization.

In the coffee shop sector, maintaining employee retention is crucial due to the specialized interpersonal and technical skills required in beverage preparation and customer interaction. High turnover disrupts relational customer service continuity, increases training costs, and can diminish brand identity. Organizations that implement democratic work practices and equitable compensation systems create a social and motivational climate conducive to employee loyalty (Siregar, 2024). Therefore, workplace democracy and compensation are expected to influence retention both directly and indirectly through their effects on job satisfaction.

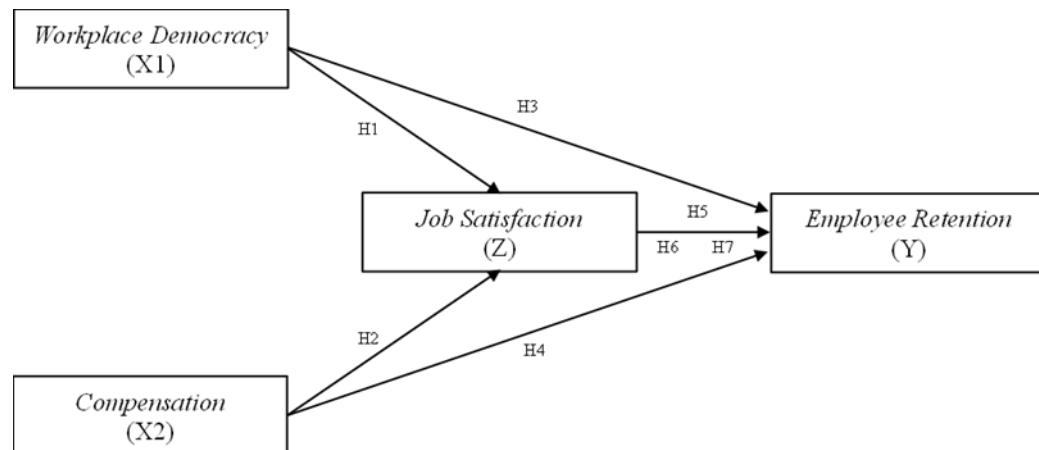
## Previous Studies

Table 1 summarizes key findings from previous studies that examine the relationships among workplace democracy, compensation, job satisfaction, and employee retention.

**Table 1.** Previous Studies

No.	Author(s) & Year	Focus Variables	Main Findings
1	Aditama (2022)	Workplace Democracy → Job Satisfaction → Employee Retention	Workplace democracy positively affects both job satisfaction and retention; full mediation occurs through job satisfaction.
2	Suryani (2021)	Compensation → Job Satisfaction → Retention Intention	Compensation has a direct and indirect effect on retention through job satisfaction.
3	Lestari (2023)	Compensation & Work Environment → Job Satisfaction → Retention	Both compensation and work environment significantly enhance retention through job satisfaction.
4	Siregar (2024)	Workplace Democracy & Compensation → Employee Retention	Both variables have a direct positive influence on employee retention.
5	Hanifah & Waskito (2023)	Compensation & Career Development → Job Satisfaction → Retention	Job satisfaction partially mediates the relationship between compensation and employee retention.

## Research Model



**Figure 1.** Research Model

## Hypothesis

Based on the theoretical framework and previous empirical studies discussed above, the following hypotheses are proposed to examine the relationships among workplace democracy, compensation, job satisfaction, and employee retention:

- H1: Workplace Democracy has a positive and significant effect on Job Satisfaction.
- H2: Compensation has a positive and significant effect on Job Satisfaction.
- H3: Job Satisfaction has a positive and significant effect on Employee Retention.
- H4: Workplace Democracy has a positive and significant effect on Employee Retention.
- H5: Compensation has a positive and significant effect on Employee Retention.

H6: Job Satisfaction mediates the relationship between Workplace Democracy and Employee Retention.

H7: Job Satisfaction mediates the relationship between Compensation and Employee Retention.

### 3. Research Methodology

#### Research Design

This study employed a quantitative research approach with a causal comparative design, aiming to examine the causal relationships among workplace democracy, compensation, job satisfaction, and employee retention. The design is appropriate for testing both direct and indirect effects using a mediating variable. Data were collected through an online survey distributed to employees of coffee shops located in Pangkalpinang City, Indonesia.

#### Variables and Operational Definitions

Four main variables were examined in this study:

- a. Independent Variables: Workplace Democracy ( $X_1$ ) and Compensation ( $X_2$ )
- b. Mediating Variable: Job Satisfaction ( $Z$ )
- c. Dependent Variable: Employee Retention ( $Y$ )

Each construct was measured using indicators adapted from prior validated studies:

- a. Workplace Democracy: Employee participation in decision-making, autonomy, and shared influence (Müller & Siegrist, 2020).
- b. Compensation: Perceived fairness, adequacy, and transparency of rewards (Hasibuan, 2020).
- c. Job Satisfaction: Positive feelings toward job tasks, environment, and rewards (Robbins & Judge, 2022).
- d. Employee Retention: Intention to stay, organizational commitment, and job loyalty (Mathis & Jackson, 2021).

All indicators were measured using a five-point Likert scale, ranging from 1 ("Strongly Disagree") to 5 ("Strongly Agree").

#### Population and Sample

The population in this study comprised all employees working in coffee shops across Pangkalpinang City who had been employed for at least six months. Using a purposive sampling technique, respondents were selected based on the following criteria:

- a. Active employment status;
- b. Minimum six months of work experience;
- c. Willingness to participate in the study.

A total of 50 valid responses were collected, which satisfies the minimum sample requirement for SEM-PLS analysis (10 times the maximum number of indicators per construct) as suggested by Hair et al. (in Ghazali & Latan, 2015).

#### Data Collection Procedure

Primary data were collected using a structured online questionnaire developed through Google Forms. Prior to data collection, a pilot test was conducted to ensure the clarity and reliability of the questionnaire items. Secondary data were obtained from relevant academic journals, statistical reports, and government publications to support theoretical arguments and contextual background.

#### Data Analysis Technique

Data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM–PLS) with SmartPLS 4.0 software. This method was chosen due to its suitability for small

sample sizes and complex mediation models. The analysis process consisted of two main stages:

- a. Measurement Model (Outer Model):
  - 1) Validity Test: Outer Loading ( $> 0.70$ ) and Average Variance Extracted (AVE  $> 0.50$ ).
  - 2) Reliability Test: Cronbach's Alpha and Composite Reliability ( $> 0.70$ ).
- b. Structural Model (Inner Model):
  - 1) Collinearity Test: Variance Inflation Factor (VIF  $< 5$ ).
  - 2) Predictive Power: Coefficient of Determination ( $R^2$ ), Effect Size ( $f^2$ ), and Predictive Relevance ( $Q^2$ ).
  - 3) Hypothesis Testing: Bootstrapping with 5,000 resamples; significance determined by t-value  $> 1.96$  and p-value  $< 0.05$ .

This analytical approach enables the evaluation of both direct and indirect effects, providing a comprehensive understanding of how workplace democracy and compensation influence employee retention through job satisfaction.

## 4. Results and Discussion

### Respondent Profile Analysis

#### Gender Distribution

**Table 2.** Frequency of Gender Categories

Gender	Sum	Percentage
<b>Men</b>	<b>38</b>	<b>76,0</b>
<b>Woman</b>	<b>12</b>	<b>24,0</b>
<b>Total</b>	<b>50</b>	<b>100,0</b>

The results indicate that out of 50 respondents, 38 (76.0%) were male and 12 (24.0%) were female. This shows that male employees dominated the sample, suggesting that the workforce composition in the coffee shop industry is largely male.

#### Age Distribution

**Table 3.** Frequency of Age Categories

Age	Sum	Percentage
<b>18 - 23 Year</b>	<b>30</b>	<b>60,0</b>
<b>24 - 29 Year</b>	<b>20</b>	<b>40,0</b>
<b>Total</b>	<b>50</b>	<b>100,0</b>

Respondents aged 18–23 years accounted for 30 individuals (60.0%), while those aged 24–29 years accounted for 20 individuals (40.0%). These findings show that most respondents are in early adulthood, reflecting a relatively young workforce.

### Occupation Distribution

**Table 4.** Frequency of Occupation Categories

Work	Sum	Percentage
<b>Bartender</b>	<b>24</b>	<b>48,0</b>
<b>Waiter</b>	<b>7</b>	<b>14,0</b>
<b>Chief</b>	<b>7</b>	<b>14,0</b>
<b>Marketing</b>	<b>4</b>	<b>8,0</b>
<b>Other</b>	<b>8</b>	<b>16,0</b>
<b>Total</b>	<b>50</b>	<b>100,0</b>

The highest proportion of respondents worked as baristas (48.0%), followed by waiters (14.0%), chefs (14.0%), marketing staff (8.0%), and other positions (16.0%). This distribution indicates that most respondents are involved directly in service and operational roles.

### Convergent Validity Test

**Table 5.** Convergent Validity (Outer Loading & AVE)

Variabel	Indikator	Outer Loading	AVE
<i>Workplace Democracy (X1)</i>	X1.1	0,862	
	X1.2	0,884	
	X1.3	0,857	
	X1.4	0,806	
	X1.5	0,793	0,676
	X1.6	0,796	
	X1.7	0,747	
	X2.1	0,867	
	X2.2	0,841	
	X2.3	0,857	
<i>Compensation (X2)</i>	X2.4	0,804	
	X2.5	0,842	0,682
	X2.6	0,796	
	X2.7	0,770	
	Y.1	0,825	
	Y.2	0,837	
	Y.3	0,849	
<i>Employee Retention (Y)</i>	Y.4	0,813	
	Y.5	0,788	0,689
	Y.6	0,853	
	Y.7	0,843	
	Z.1	0,850	
	Z.2	0,762	
	Z.3	0,811	
<i>Job Satisfaction (Z)</i>	Z.4	0,789	
	Z.5	0,861	0,655
	Z.6	0,804	
	Z.7	0,783	

All indicators achieved outer loading values above 0.70, confirming that every indicator is valid in measuring its respective construct. Additionally, the Average Variance Extracted (AVE) values exceeded 0.50 for all constructs, indicating that each construct explains more variance than measurement error. Thus, convergent validity is fulfilled.

### Discriminant Validity Test

**Table 6.** Discriminant Validity Results (HTMT, Fornell–Larcker, and Cross-Loading)

	<b>Variabel</b>	<b>X1</b>	<b>X2</b>	<b>Y</b>	<b>Z</b>
<i>Workplace Democracy</i>					
<i>Heterotrait-Monotrait</i> (HTMT)	<i>Compensation</i>	0,727			
	<i>Employee Retention</i>	0,872	0,883		
	<i>Job Satisfaction</i>	0,706	0,735	0,878	
	<i>Workplace Democracy</i>	0,822			
<i>Fornell-Larcker</i> <i>Criterion</i>	<i>Compensation</i>	0,672	0,826		
	<i>Employee Retention</i>	0,812	0,820	0,830	
	<i>Job Satisfaction</i>	0,656	0,680	0,808	0,809
		0,862	0,580	0,638	0,494
		0,884	0,601	0,744	0,552
		0,857	0,452	0,689	0,546
		0,806	0,590	0,738	0,662
		0,793	0,565	0,664	0,456
	<i>Workplace Democracy</i>	0,796	0,554	0,645	0,569
		0,747	0,517	0,511	0,457
		0,586	0,867	0,768	0,564
		0,575	0,841	0,680	0,527
		0,562	0,857	0,658	0,526
		0,347	0,804	0,664	0,550
		0,644	0,842	0,750	0,658
	<i>Compensation</i>	0,556	0,796	0,596	0,544
		0,603	0,770	0,600	0,552
		0,701	0,723	0,825	0,692
		0,710	0,684	0,837	0,649
		0,640	0,708	0,849	0,680
		0,633	0,642	0,813	0,666
	<i>Employee Retention</i>	0,666	0,602	0,788	0,644
		0,645	0,684	0,853	0,712
		0,719	0,714	0,843	0,651
<i>Cross Loading</i>		0,646	0,610	0,723	0,850
		0,493	0,469	0,599	0,762
		0,482	0,550	0,691	0,811
		0,495	0,569	0,652	0,789
	<i>Job Satisfaction</i>	0,519	0,480	0,623	0,861
		0,514	0,489	0,633	0,804
		0,547	0,663	0,640	0,783

The HTMT values for all variables were below 0.90, demonstrating acceptable discriminant validity. The Fornell–Larcker criterion confirmed that the square root of AVE for each construct was higher than its correlations with other constructs. Cross-loading results also showed that indicators loaded higher on their intended constructs than on other constructs.

### Reliability Test

**Table 7.** Reliability Test Results (Cronbach's Alpha and Composite Reliability)

Variabel	Cronbach's alpha	Composite reliability (rho_c)
<i>Workplace Democracy</i>	0,920	0,936
<i>Compensation</i>	0,922	0,938
<i>Employee Retention</i>	0,925	0,939
<i>Job Satisfaction</i>	0,912	0,930

Cronbach's Alpha and Composite Reliability values for all constructs exceeded the minimum thresholds of 0.60 and 0.70, respectively. These results indicate that all variables possess strong internal consistency and are reliable for further analysis.

### R-Square ( $R^2$ )

**Table 8.** R-Square Results

Variabel	R-square
<i>Employee Retention (Y)</i>	0,849
<i>Job Satisfaction (Z)</i>	0,535

Employee Retention (Y) achieved an  $R^2$  value of 0.849, indicating that 84.9% of its variance is explained by Workplace Democracy (X1), Compensation (X2), and Job Satisfaction (Z). This is categorized as strong. Job Satisfaction (Z) obtained an  $R^2$  value of 0.535, meaning that 53.5% of its variance is influenced by Workplace Democracy and Compensation. This is categorized as moderate.

### Predictive Relevance ( $Q^2$ )

**Table 9.** Q-Square Values

Variabel	Q
<i>Employee Retention (Y)</i>	0,568
<i>Job Satisfaction (Z)</i>	0,320

Employee Retention (Y) recorded a Q-square of 0.568, and Job Satisfaction (Z) recorded 0.320. Both values are above zero, indicating that the structural model has adequate predictive relevance.

### Effect Size ( $f^2$ )

**Table 10.** Effect Size ( $f^2$ ) Results

Variabel	X1	X2	Y	Z
<i>Workplace Democracy</i>			0,395	0,155
<i>Compensation</i>			0,371	0,226
<i>Employee Retention</i>				
<i>Job Satisfaction</i>			0,343	

All  $f^2$  values exceeded the minimum threshold of 0.02, indicating meaningful effect sizes. The strongest effects were observed in the direct paths toward Employee Retention and in the mediating influence of Job Satisfaction.

### Multicollinearity Test (VIF)

**Table 11.** VIF Values for Multicollinearity Assessment

Indikator	VIF
X1.1	3,323
X1.2	4,156
X1.3	3,128
X1.4	2,899
X1.5	2,569
X1.6	2,464
X1.7	2,656
X2.1	4,170
X2.2	3,100
X2.3	3,020
X2.4	2,766
X2.5	2,603
X2.6	2,537
X2.7	2,224
Y.1	2,533
Y.2	2,832
Y.3	4,196
Y.4	2,965
Y.5	2,492
Y.6	4,169
Y.7	3,578
Z.1	2,628
Z.2	3,138
Z.3	2,999
Z.4	2,330
Z.5	4,406
Z.6	3,072
Z.7	2,410

All VIF values were below 5.0, indicating no multicollinearity issues among statistical indicators or exogenous variables. The model satisfies the non-multicollinearity assumption.

### Path Coefficient Analysis

**Table 12.** Path Coefficient Results

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
<i>Workplace Democracy -&gt; Employee Retention</i>	0,355	0,360	0,083	4,284	0,000
<i>Workplace Democracy -&gt; Job Satisfaction</i>	0,362	0,347	0,133	2,727	0,006
<i>Compensation -&gt; Employee Retention</i>	0,354	0,361	0,079	4,489	0,000
<i>Compensation -&gt; Job Satisfaction</i>	0,437	0,429	0,125	3,503	0,000
<i>Job Satisfaction -&gt; Employee Retention</i>	0,334	0,331	0,073	4,589	0,000

- a. H1: Workplace Democracy → Job Satisfaction  
Workplace Democracy significantly influences Job Satisfaction ( $t = 2.727$ ;  $p = 0.006$ ). Higher levels of workplace democracy improve employees' satisfaction with their job.
- b. H2: Compensation → Job Satisfaction  
Compensation significantly affects Job Satisfaction ( $t = 3.503$ ;  $p = 0.000$ ), implying that adequate compensation enhances employee satisfaction.
- c. H3: Job Satisfaction → Employee Retention  
Job Satisfaction has a significant positive effect on Employee Retention ( $t = 4.589$ ;  $p = 0.000$ ). Satisfied employees are more likely to remain in the organization.
- d. H4: Workplace Democracy → Employee Retention  
Workplace Democracy positively influences Employee Retention ( $t = 4.284$ ;  $p = 0.000$ ), showing that democratic work practices strengthen employee commitment.
- e. H5: Compensation → Employee Retention  
Compensation significantly influences Employee Retention ( $t = 4.489$ ;  $p = 0.000$ ). Better compensation reduces turnover intention.

### Mediation Analysis

**Table 13.** Mediation Test (Specific Indirect Effect)

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
<i>Workplace Democracy</i> → <i>Job Satisfaction</i> → <i>Employee Retention</i>	0,121	0,115	0,052	2,327	<b>0,020</b>
<i>Compensation</i> → <i>Job Satisfaction</i> → <i>Employee Retention</i>	0,146	0,142	0,053	2,781	<b>0,005</b>

- a. H7: Workplace Democracy → Job Satisfaction → Employee Retention  
The indirect effect ( $p = 0.020$ ) shows that Job Satisfaction mediates the relationship between Workplace Democracy and Employee Retention.
- b. H8: Compensation → Job Satisfaction → Employee Retention  
The indirect effect of Compensation on Employee Retention via Job Satisfaction is significant ( $p = 0.005$ ), confirming mediation.

## 5. Discussion & Conclusion

### Discussion

The findings of this study demonstrate that workplace democracy has a positive and significant influence on job satisfaction among coffee shop employees in Pangkalpinang. This suggests that when employees are provided with opportunities to contribute to decision-making and express their perspectives, they perceive greater autonomy and psychological ownership in their roles. Such participatory structures enhance feelings of respect and recognition, which align with theories of intrinsic motivation that emphasize the value of autonomy and meaningful engagement. This result supports previous research showing that democratic work environments foster stronger employee involvement and positive affective responses toward one's job (Müller & Siegrist, 2020; Sartori & Van der Meer, 2021). Therefore, workplace democracy represents not only an ethical managerial principle but also an effective strategy for increasing job satisfaction in service-based enterprises.

The study also confirms that compensation has a significant positive effect on job satisfaction. Employees who perceive their compensation as fair and aligned with their workload and skill level tend to evaluate their job experience more positively. This finding aligns with the equity perspective in compensation theory, which posits that perceived fairness in rewards contributes to emotional well-being and long-term motivation (Hasibuan, 2020; Suryani, 2021). In the context of the coffee shop industry, where many employees work under physically demanding and time-intensive conditions, compensation serves not only as an economic resource but also as a symbolic acknowledgment of employee value. When compensation practices are transparent and merit-based, employees develop stronger affective ties to the organization, which reinforces satisfaction and reduces the desire to seek alternative employment.

Furthermore, the results indicate that job satisfaction has a direct and significant effect on employee retention. Employees who experience positive emotional evaluations of their work environment are more likely to remain with the organization, consistent with organizational commitment theory (Robbins & Judge, 2022). In customer-facing service settings, satisfaction is shaped by both tangible elements (such as wages and schedules) and intangible elements (such as interpersonal climate and appreciation). Hence, enhancing job satisfaction contributes to retention not simply by improving material conditions but by strengthening relational and identity-based connections between employees and their workplace.

The study additionally finds that both workplace democracy and compensation directly influence employee retention. This implies that employees' decisions to continue working in a coffee shop are shaped not only by their emotional evaluations of their work environment but also by structural and managerial conditions that support their agency and reward their efforts. Employees are more likely to remain in organizations that recognize their voice, distribute rewards fairly, and encourage participatory work cultures. These findings are consistent with research emphasizing that environments characterized by fairness, trust, and collaboration contribute to stable workforce retention (Siregar, 2024).

Finally, job satisfaction is shown to mediate the relationship between workplace democracy and compensation with employee retention. This indicates that participatory managerial practices and fair compensation systems contribute to retention largely by enhancing employees' positive emotional experiences at work. In other words, retention is sustained not only by structural policies but by how employees *feel* about their work under these conditions. This mediation reinforces the central role of psychological well-being in workforce sustainability, particularly within small creative enterprises where work identity and interpersonal interaction are deeply embedded in the employment experience.

## Conclusion

This study concludes that workplace democracy and compensation play critical roles in shaping both job satisfaction and employee retention within the coffee shop industry in Pangkalpinang. Employees who are engaged in decision-making processes and who receive compensation perceived as fair are more likely to experience positive emotional attachment to their work. Job satisfaction, in turn, strengthens the relationship between these managerial practices and retention outcomes, functioning as a key psychological mechanism that drives long-term commitment. These findings highlight that effective retention strategies should not be limited to financial incentives alone but must also incorporate participatory management practices that recognize employee voice and autonomy. For business owners and policymakers, this study emphasizes the importance of designing work environments that balance material equity with social and psychological support, thereby fostering a more stable, motivated, and sustainable workforce in the creative service sector.

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