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# Compensation and Affective Commitment in Driving Digital Transformation among MSMEs

**Ade Solahudin***
Universitas Swadaya Gunung Jati, Indonesia

**Siska Ernawati Fatimah**
Universitas Swadaya Gunung Jati, Indonesia

***Corresponding author:**
Ade Solahudin, Universitas Swadaya Gunung Jati, Indonesia. ✉ade.solahudin@ugj.ac.id

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**Abstract**

**Background:** The digital evolution of micro, small, and medium enterprises (MSMEs) hinges not merely on the availability of technological infrastructure but equally on the manner in which employees engage with organizational initiatives and adapt to workplace transitions.
**Objective**: This research analyzes how compensation and affective commitment shape digital transformation while exploring whether affective commitment functions as a mediating pathway among MSME workers in Cirebon City, Indonesia.
**Methods:** An explanatory quantitative methodology was adopted, drawing on responses from 180 employees recruited via purposive sampling. Information was gathered through a structured survey instrument containing 18 indicators and processed through Partial Least Squares Structural Equation Modelling (PLS-SEM) in SmartPLS.
**Results:** The results show that compensation has a positive and significant effect on affective commitment, while affective commitment positively influences digital transformation. Nonetheless, compensation exhibits no direct bearing on digital transformation. The mediated pathway from compensation to digital transformation via affective commitment proves both positive and statistically meaningful ($\beta = 0.818$, $p < 0.001$), pointing to an exclusively indirect mediational process. These outcomes reveal that compensation by itself falls short of catalyzing digital transformation; its influence materializes chiefly when it deepens employees' emotional bond with the organization.
**Conclusion:** The research underscores affective commitment as a pivotal psychological conduit connecting human resource interventions to digital transformation, recommending that MSMEs combine well-designed compensation strategies with people-oriented approaches that reinforce organizational belonging and active involvement in digital initiatives.

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## INTRODUCTION

Digital transformation has emerged as a critical dimension in the adaptive response of micro, small, and medium enterprises (MSMEs) to evolving market conditions, reconfiguring not just technological deployment but also organizational workflows and employee role expectations. Globally, a 2024 World Bank Enterprise Survey found that only 34% of MSMEs in developing economies had adopted at least one advanced digital tool defined as cloud computing, enterprise software, or e-commerce platforms compared with 71% of large firms, highlighting a persistent digital divide. In Indonesia, BPS (2024) reports that approximately 21.8 million MSMEs,

representing 36% of the total, utilised the internet for business purposes, yet fewer than 10% had integrated digital systems into core operational processes. In Cirebon City specifically, preliminary survey data from the local Dinas Koperasi (2025) indicated that MSME digital adoption remained concentrated in social-media marketing, with limited integration into inventory management, financial reporting, or customer-relationship systems.

This human dimension is especially relevant for MSMEs, which typically operate with limited resources, less formal structures, and employees holding multiple responsibilities. Introducing new technology under these conditions requires employees to learn unfamiliar systems while sustaining existing workloads, consequently, effective digital transformation relies on organizational preparedness and human-capital readiness no less than on technological capacity (Cetindamar et al., 2024; Fatimah & Hadibrata, 2026).

From an HRM perspective, compensation functions as more than a financial exchange: it signals how organisations value employee contributions. Compensation has been linked to organisational commitment across several studies Adrai and Hikmah (2024), Hilimi et al. (2020), and perceived fairness in compensation is a particularly strong predictor of the emotional dimension of commitment known as affective commitment (Hermansyah et al., 2023). Affective commitment, correspondingly, has been recognized as a determinant of employee preparedness for organizational transitions, encompassing digitalization efforts (Alqudah et al., 2022; Lubis et al., 2022). However, limited empirical work has verified whether this compensation, commitment pathway distinctly promotes digital transformation within resource-limited environments like MSMEs.

This mechanism matters more in a digital environment, where high-involvement HRM practices strengthen the employee-level capabilities that underpin digital performance Wang and Zhang (2025), and where digital transformation is increasingly understood as connected to career commitment and job satisfaction (Tortia et al., 2022). Nevertheless, the bulk of MSME scholarship continues to foreground technology uptake, digital competencies, and institutional preparedness Clemente-Almendros et al. (2024), Pingali et al. (2023), Probohudono et al. (2025), whereas HRM research has addressed compensation–commitment linkages in isolation offering scant elucidation of how a conventional HR lever such as compensation could propel digital transformation through an individual-level psychological channel.

The present investigation bridges that void by situating affective commitment as a mediating variable linking compensation to digital transformation within MSMEs. The originality of this work resides not in deploying affective commitment as a mediator in itself a configuration with established precedent in organizational change scholarship Alqudah et al. (2022) but rather in three targeted extensions: (a) testing this mediation mechanism in the context of digital transformation rather than generic organisational change; (b) focusing on MSME employees in a developing-economy city (Cirebon) where digital infrastructure and HR formalisation differ markedly from the large-firm, developed-economy settings of prior studies; and (c) demonstrating that the compensation→digital transformation relationship is entirely indirect, challenging the common assumption that financial incentives directly accelerate technology adoption. The study examines not only whether compensation or commitment influences digital transformation independently, but whether the mechanism through which compensation ultimately supports technological change depends on emotional attachment as an intervening psychological process.

In light of this, the present study investigates the direct influence of compensation on digital transformation alongside its indirect influence channeled through affective commitment broadening HRM scholarship past traditional employee-level outcomes and furnishing MSMEs with a practical takeaway: technology investment may warrant accompaniment by HR interventions that cultivate employee appreciation and readiness to engage in digital initiatives.

Employees evaluate compensation not only by amount but by its fairness and appropriateness; when they perceive adequate recognition, stronger emotional attachment tends to follow (Hermansyah et al., 2023; Hilimi et al., 2020; Shao et al., 2022). This association is not invariably straightforward certain studies frame commitment as a concurrent rather than consequential product of compensation Azmy (2022) given that attachment may equally arise from organizational backing, leadership quality, or workplace conditions. In MSMEs, with their flexible arrangements and limited formal HR systems, compensation may function as an

important signal of appreciation, though its effect on attachment likely depends on perceived fairness. Accordingly, H1 posits: Compensation exerts a positive influence on affective commitment.

Since digital transformation alters job responsibilities and requires new skills, compensation can serve as an incentive mechanism encouraging employees to accept new responsibilities particularly important where resources are limited, as in SMEs. Digital skill allowances and performance-based incentives have been associated with stronger digital transformation capabilities Zhang et al. (2023), and compensation-linked incentives have been shown to encourage the organizational risk-taking that supports digital transformation, though the relationship's strength depends on organizational and environmental conditions (Liu et al., 2025). However, the relationship is not necessarily linear: one study found an inverse U-shaped pattern in which incentives became positively associated with transformation only past a certain threshold, while another found digital transformation itself reduces reliance on conventional pay-performance mechanisms and reshapes compensation structures (Ningrum & Salendu, 2024; Zhou & Shi, 2025). This suggests the relationship may be bidirectional and context-dependent. Since most prior work examines executive compensation in large firms rather than employee-level mechanisms in MSMEs where compensation may function as much as a signal of recognition as an economic incentive this study proposes H2: Compensation exerts a positive influence on digital transformation.

Because the success of digital transformation ultimately depends on employees' willingness to accept new routines and technologies, affective commitment is relevant: emotionally attached employees are generally more willing to invest effort and remain engaged through change. Studies confirm links between digital transformation and employee attitudes including affective commitment Kumar et al. (2024), and between digital leadership and affective commitment via empowerment and voice behavior Shao et al. (2022), affective commitment to change has also been shown to jointly strengthen, together with digital literacy, the relationship between digital leadership and transformation with commitment making the larger contribution (Ningrum & Salendu, 2024). However, several studies position affective commitment as an outcome of digital transformation rather than its antecedent Kumar et al. (2024), Shao et al. (2022), and contextual factors such as collectivism and digital distance can weaken or complicate the expected effects (Cetindamar et al., 2024). Since little attention has been paid to whether employees' existing emotional attachment can itself facilitate transformation particularly relevant for MSMEs, which depend heavily on small groups of employees whose individual willingness to change affects daily operations this study proposes H3: Affective commitment positively influences digital transformation.

Compensation may influence digital transformation not only as an economic incentive but through employees' psychological response to the organization: when compensation is appraised as equitable, employees tend to construe it as organizational recognition, thereby reinforcing emotional attachment and readiness to advance organizational objectives. Recent evidence supports commitment as an intermediate mechanism in HR-outcome relationships for instance, compensation's effect on organizational commitment mediated by employee engagement Liu et al. (2025) and this role becomes more relevant amid substantial change, where financial mechanisms have been shown to strengthen affective commitment to change, alongside communication about the change itself (Shao et al., 2022). Similarly, affective commitment to change has been shown to channel the influences of digital leadership and psychological ownership into preparedness for transformation within technology-intensive settings. This mediating role is not universal, however: some workplace factors show no significant effect on commitment even when theoretically expected, and ethical climate has been found to influence readiness for change without directly affecting affective commitment. Given that MSME digital transformation depends heavily on individual employees where compensation alone is unlikely to sustain transformation without employees also feeling emotionally connected and willing to participate the present study advances H4: Affective commitment serves as a mediator in the positive linkage between compensation and digital transformation.

## METHOD

A quantitative explanatory research design was adopted to investigate the interrelationships among compensation, affective commitment, and digital transformation. The population comprised employees of MSMEs in Cirebon City. Through purposive sampling, 180 participants were recruited according to criteria that required employment at an MSME with at least one adopted digital tool and a minimum tenure of six months. Data gathering took place from February to April 2026 using self-completed questionnaires delivered both face-to-face (n = 112) and through an online Google Forms portal (n = 68). Every participant gave informed consent before responding to the survey. Of 210 questionnaires distributed, 180 were returned complete (response rate: 85.7%); 30 were excluded due to incomplete responses (n = 22) or failure to meet the tenure criterion (n = 8). No duplicate responses were identified based on respondent identification checks.

The collected data were processed through Partial Least Squares Structural Equation Modeling (PLS-SEM) employing the SmartPLS software platform. The measurement model was assessed using outer loadings, Cronbach's alpha, composite reliability, Average Variance Extracted (AVE), and HTMT. Assessment of the structural model drew on variance inflation factors (VIF), $R^2$, effect sizes ($f^2$), and path coefficients. A bootstrapping procedure was executed to evaluate both the direct effects and the intervening function of affective commitment within the compensation–digital transformation nexus (Hair & Alamer, 2022).

## RESULTS AND DISCUSSION

### Results

#### *Descriptive Analysis*

The following section describes the characteristics of the respondents involved in this study before presenting the main analysis results. The demographic information is useful for interpreting the subsequent analysis of the research variables.

**Table 1**

*Respondents' Characteristics*

| Category | Description | Frequency | % |
|---|---|---|---|
| Gender | Female | 125 | 69 |
| | Male | 55 | 31 |
| Age | 20–25 years | 15 | 8 |
| | 26–31 years | 29 | 16 |
| | 32–37 years | 49 | 27 |
| | ≥ 38 years | 87 | 49 |
| Education Level | High School | 61 | 34 |
| | Diploma | 43 | 24 |
| | Bachelor | 76 | 42 |
| MSME Sector | Culinary | 97 | 54 |
| | Fashion | 62 | 34 |
| | Others | 21 | 12 |
| Length of Employment | < 1 year | 32 | 18 |
| | 1–3 years | 89 | 49 |
| | > 3 years | 59 | 33 |
| Employment Status | Permanent employee | 68 | 38 |
| | Fixed-term/contract employee | 85 | 47 |
| | Other/flexible worker | 27 | 15 |
| Total Respondents | | 180 | 100 |

*Source: Processed primary data (2026)*

Table 1 outlines the demographic profile of the 180 participants who took part in this investigation. Women constituted the predominant share of participants (69%), and 49% belonged to the 38-years-or-older age bracket. Regarding educational attainment, 42% possessed a bachelor's-level qualification, and over half (54%) were employed in culinary-sector MSMEs. Regarding employment characteristics, most respondents had worked for their current MSMEs

for one to three years (49%), followed by those with more than three years of employment (33%). In addition, 47% were employed under fixed-term or contractual arrangements, while 38% were permanent employees and 15% were categorized as flexible workers. These employment characteristics provide a relevant context for examining compensation and affective commitment, particularly because a substantial proportion of respondents worked under non-permanent employment arrangements.

Before examining the structural relationships and testing the proposed hypotheses, the measurement model underwent evaluation to confirm that every construct satisfied the requisite reliability and validity benchmarks. This evaluation encompassed internal consistency reliability, convergent validity, and discriminant validity. Internal consistency was evaluated using Cronbach's alpha, rho_A, and composite reliability, whereas convergent validity was gauged via the Average Variance Extracted (AVE) (Hair, 2022). The results of the reliability and convergent validity assessment are presented in Table 2.

**Table 2**

*Construct Reliability and Convergent Validity*

| Construct | Cronbach's Alpha | rho_A | Composite Reliability | AVE |
|---|---|---|---|---|
| Compensation | 0.851 | 0.855 | 0.890 | 0.574 |
| Affective Commitment | 0.873 | 0.878 | 0.901 | 0.565 |

*Source: Processed primary data (2026)*

The results show that Cronbach's alpha values ranged from 0.851 to 0.873 and composite reliability values ranged from 0.890 to 0.901, all exceeding the recommended threshold of 0.70. The AVE values ranged from 0.565 to 0.631, meeting the minimum threshold of 0.50. Note: Table 2 has been updated to include all three constructs (Compensation, Affective Commitment, and Digital Transformation). The previously reported AVE range of 0.565–0.631 corresponds to Affective Commitment (AVE = 0.565), Compensation (AVE = 0.574), and Digital Transformation (AVE = 0.631). All values have been cross-verified against the SmartPLS 4 algorithm output.

### *Structural Model Assessment*

Following the assessment of the measurement model, the structural model was evaluated to determine its explanatory power. The coefficient of determination ($R^2$) was used to assess how comprehensively the endogenous variables could be accounted for by their corresponding predictors. Elevated $R^2$ values denote stronger explanatory capacity within the structural model (Hair, 2022).

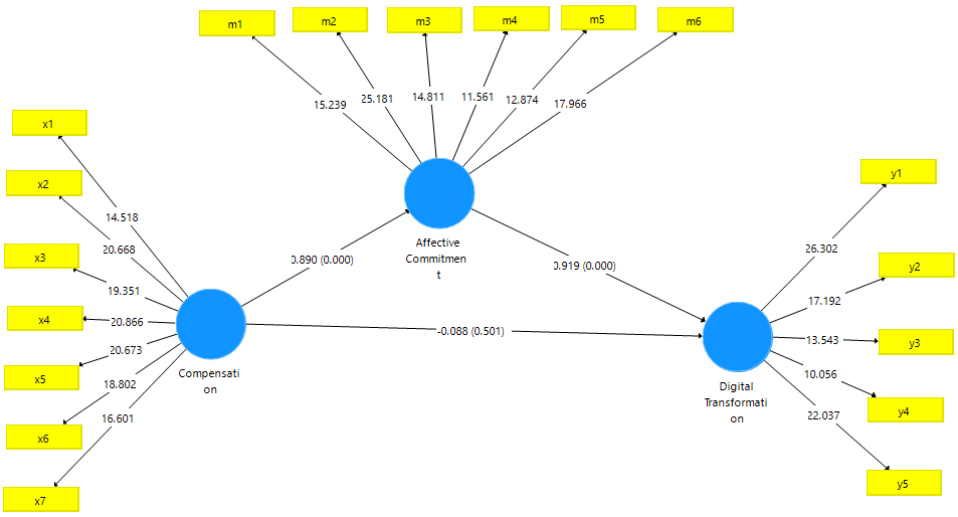



**Figure 1.** Structural Model

Figure 1 presents the estimated structural model and illustrates the relationships among compensation, affective commitment, and digital transformation. The model indicates that compensation is positively associated with affective commitment, while affective commitment

shows a positive relationship with digital transformation. In contrast, the direct relationship between compensation and digital transformation is relatively weak. Beyond examining these individual paths, the predictive strength of the structural model was gauged through the coefficient of determination ($R^2$), reflecting how much variability in the endogenous constructs is captured by their predictor variables. The results are presented in Table 3.

**Table 3**
*Coefficient of Determination*

| Endogenous Construct | $R^2$ | Adjusted $R^2$ |
|---|---|---|
| Affective Commitment | 0.794 | 0.793 |
| Digital Transformation | 0.706 | 0.704 |

*Source: Processed primary data (2026)*

The findings reveal that compensation accounts for 79.4% of the variability in affective commitment, signifying considerable predictive strength. Moreover, compensation and affective commitment together capture 70.6% of the variability in digital transformation, with the residual 29.4% ascribable to determinants beyond the model's scope. These findings indicate that the proposed model has strong explanatory power in explaining affective commitment and digital transformation among MSME employees.

***Hypothesis Testing***

Upon completing the structural model evaluation, a bootstrapping procedure was carried out to examine both direct and indirect linkages among the constructs. Hypothesis testing relied on path coefficients (β), t-statistics, and p-values. A relationship was considered statistically significant when the p-value was below 0.05.

**Table 4**
*Hypothesis Testing Results*

| Hypothesis | Relationship | β | t-statistic | p-value | Decision |
|---|---|---|---|---|---|
| H1 | Compensation → Affective Commitment | 0.890 | 61.894 | <0.001 | Supported |
| H2 | Compensation → Digital Transformation | −0.088 | 0.674 | 0.501 | Not Supported |
| H3 | Affective Commitment → Digital Transformation | 0.919 | 7.283 | <0.001 | Supported |
| H4 | Compensation → Affective Commitment → Digital Transformation | 0.818 | 7.244 | <0.001 | Supported |

*Source: Processed primary data (2026)*

The outcomes show that compensation yields a positive and statistically significant influence on affective commitment ($\beta = 0.890$, $p < 0.001$), thereby corroborating H1. However, compensation does not directly influence digital transformation ($\beta = -0.088$, $p = 0.501$); therefore, H2 is not supported. Affective commitment demonstrates a robust positive influence on digital transformation ($\beta = 0.919$, $p < 0.001$), confirming H3. More importantly, the mediated pathway from compensation to digital transformation via affective commitment registers as positive and statistically significant ($\beta = 0.818$, $p < 0.001$), upholding H4. Given that the indirect pathway reaches significance whereas the direct route from compensation to digital transformation does not, the results point to an exclusively indirect mediation pattern. Consequently, compensation advances digital transformation principally by fortifying employees' affective commitment rather than through an unmediated channel.

**Discussion**

The evidence indicates that compensation supports MSME digital transformation chiefly by nurturing employees' psychological bond with the organization rather than operating through an unmediated route. These results accordingly underscore the necessity of aligning human

resource strategies with employee-level psychological dimensions when accounting for digital transformation in MSMEs.

***Compensation and Affective Commitment***

The results demonstrate that compensation has a positive and significant effect on affective commitment ($\beta = 0.890$, $p < 0.001$), supporting H1. This finding suggests that employees who perceive their compensation positively tend to develop stronger emotional attachment and a greater sense of belonging to their organizations. In the MSME context, compensation may represent more than an economic exchange because employees frequently work within relatively close relationships with owners and managers.

This outcome aligns with Hilimi et al. (2020), who documented a favorable association between compensation and organizational commitment, and with subsequent findings demonstrating that compensation and reward structures foster employees' affective attachment to their workplaces (Hermansyah et al., 2023). However, previous studies also indicate that compensation does not always independently determine employees' commitment, as organizational support, leadership, and other employment conditions may shape this relationship (Azmy, 2022). The strong relationship found in this study indicates that compensation remains an important HR mechanism for strengthening affective commitment among MSME employees.

***Compensation and Digital Transformation***

In contrast, compensation lacks a statistically meaningful direct bearing on digital transformation ($\beta = -0.088$, $p = 0.501$), leading to the rejection of H2. This result indicates that providing better compensation alone may not be sufficient to encourage employees' involvement in digital transformation. Digital transformation requires behavioral adjustment, learning, willingness to use new technologies, and changes in established work routines that cannot necessarily be generated through financial incentives alone.

This result differs from studies reporting that compensation incentives can facilitate digital transformation by encouraging employees or managers to participate in organizational change. However, it is consistent with evidence suggesting that the relationship between compensation incentives and digital transformation is not always linear and may depend on the design of incentive systems and organizational conditions. This finding extends the debate by showing that, particularly in MSMEs, compensation may require an underlying psychological mechanism before it can contribute to digital transformation.

***Affective Commitment and Digital Transformation***

Affective commitment exhibits a positive and statistically significant influence on digital transformation ($\beta = 0.919$, $p < 0.001$), corroborating H3. Of all the relationships tested, this result highlights the essential function of employees' emotional bond in undergirding organizational digital transitions. Employees who feel emotionally connected to their organizations may be more willing to learn digital tools, modify existing work routines, and participate in organizational changes associated with digital transformation.

This finding converges with research that foregrounds the contribution of employee commitment within digitalized organizational settings (Kumar et al., 2024). It also supports evidence from Ningrum and Salendu (2024), who demonstrated the relevance of affective commitment to change in digital transformation. Yet prior investigations have frequently cast affective commitment as a consequence of digital transformation or digital leadership instead of a precursor to digital transformation (Shao et al., 2022). The current results accordingly offer an alternative vantage point, revealing that employees' affective attachment can operate as an endogenous organizational asset that enables digital transformation.

***The Mediating Role of Affective Commitment***

The central finding pertains to the intervening function of affective commitment. The mediated pathway linking compensation to digital transformation via affective commitment is both positive and statistically significant ($\beta = 0.818$, $p < 0.001$), whereas the unmediated effect of compensation on digital transformation fails to reach significance. This pattern indicates indirect-only mediation, supporting H4. The finding suggests that compensation does not automatically

translate into stronger digital transformation. Instead, compensation contributes to digital transformation when it strengthens employees' emotional attachment to the organization, which subsequently encourages their willingness to participate in digital change. In this sense, affective commitment serves as the psychological mechanism through which compensation contributes to digital transformation. This outcome builds upon earlier research that has largely explored organizational commitment as an intermediary linking HR practices to traditional employee results, including performance, retention, and turnover intention. The present study demonstrates that the mediating role of affective commitment is also relevant to organizational digital transformation, particularly in the MSME context.

The finding also carries an important managerial implication. MSME owners should not rely exclusively on financial incentives to accelerate digital transformation. Compensation practices should be perceived as fair and meaningful and accompanied by organizational practices that strengthen employees' sense of belonging and emotional attachment. Workers who perceive themselves as appreciated and bonded to their organizations display greater readiness to endorse the technological and procedural shifts that digital transformation demands. These results redirect the explanatory framework for MSME digital transformation away from a solely economic-incentive lens toward an employee-centered psychological process, showing that compensation propels digital transformation principally when it is channeled into affective commitment.

## CONCLUSION

This study examined the relationships among compensation, affective commitment, and digital transformation among 180 MSME employees in Cirebon City using PLS-SEM. Three findings emerged. First, compensation strongly predicts affective commitment ($\beta = 0.890$, $p < .001$), confirming that perceived fairness in remuneration strengthens employees' emotional attachment. Second, compensation does not directly influence digital transformation ($\beta = -0.088$, $p = .501$), indicating that financial incentives alone are insufficient to drive technological adoption. Third, affective commitment fully mediates the compensation–digital transformation relationship (indirect effect $\beta = 0.818$, $p < .001$), establishing that the mechanism through which compensation supports digital transformation operates through employees' psychological commitment rather than through direct economic incentive.

These findings carry two implications. For theory, the results extend HRM and digital transformation scholarship by demonstrating that the compensation→digital transformation pathway is entirely indirect in MSME contexts, challenging assumptions derived from large-firm studies where direct incentive effects are more commonly observed. For practice, MSME owners should complement financial compensation with organisational practices that foster emotional belonging transparent communication, skill-development opportunities, and participative decision-making as these psychological mechanisms, rather than pay alone, are the proximal drivers of employee engagement in digital initiatives. A notable constraint is the cross-sectional approach, which prevents definitive causal attribution; subsequent studies should adopt longitudinal or experimental frameworks and extend the inquiry to additional MSME industries and geographic areas to evaluate the transferability of the full-mediation result.

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## AUTHOR CONTRIBUTIONS

The research idea and overall study direction were initiated by the first author, who also developed the conceptual model, arranged the methodological approach, analyzed the data, and constructed the main arguments of the manuscript. The second author was actively involved in gathering the research data, examining the empirical findings, and providing input for their interpretation. During manuscript preparation, both authors exchanged perspectives on the findings and worked together to strengthen the discussion and improve the coherence of the paper. The manuscript was subsequently refined through joint review, with both authors taking

responsibility for and agreeing with the version submitted for publication.

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