

## THE INFLUENCE OF COMPETENCE AND COMPENSATION ON PERFORMANCE THROUGH THE MEDIATION OF SATISFACTION IN TRADITIONAL VILLAGES IN DENPASAR CITY

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### Abstract

The Bali Provincial Regional Regulation Number 4 of 2019 on Customary Villages in Bali and Number 4 of 2022 on the Guidelines for the Establishment of the Village-Owned Business Entity (BUPDA) are strategic steps to strengthen the role of Customary Villages in local wisdom-based economic development. One of the implementations is the establishment of BUPDA as a business unit owned by the Customary Village. However, based on data from the Bali Customary Community Advancement Office (2022), out of 35 Customary Villages in Denpasar City, only 8 villages (23%) have established BUPDA. This condition reflects the suboptimal performance of Customary Villages in Denpasar City. This study uses a quantitative approach with a causal associative method to test the influence of competence, compensation, and satisfaction on the performance of Customary Village administrators (prajuru) in Denpasar City. Data were collected from 140 prajuru through questionnaires and analyzed using Structural Equation Modeling (SEM) based on Partial Least Squares (PLS). The aim of this study is to evaluate the extent to which each variable influences the performance of the prajuru and to understand the role of satisfaction as a mediator in the relationship between competence, compensation, and performance. The research findings show that competence, compensation, and satisfaction have a positive and significant influence on the performance of Customary Village prajuru. Job satisfaction was also found to be a significant mediator in the relationship between competence and compensation on performance. These findings highlight the importance for Customary Villages in Denpasar City to continuously improve the competence of prajuru through training and capacity building, as well as ensure a fair, transparent, and performance-based compensation system to enhance job satisfaction. This study recommends that institutional strengthening be carried out not only from the human resources side but also through improvements in work systems and the development of the economic aspects of the customary village, including the establishment of Village-Owned Business Entities (BUPDA) as a strategic effort to improve performance and the sustainable well-being of the customary community.

**Keywords:** Performance, Competence, Compensation, and Satisfaction

## A. INTRODUCTION

Bali Provincial Regulation (PERDA) No. 4 of 2019 concerning Customary Villages in Bali was created to strengthen the position and function of Customary Villages (*Desa Adat*) within the regional government system. This regulation provides a more detailed legal basis for the authority of *Desa Adat* to carry out their social, cultural, and traditional roles. As an independent institution, the *Desa Adat* is recognized as having the right to govern and manage its territory in accordance with its *awig-awig* (customary rules). With this regulation, the position of the *Desa Adat* is not only stronger but also plays a role in regional development that is rooted in local wisdom. In addition to strengthening the *Desa Adat* institution, this *Perda* also regulates various supporting aspects, such as customary financial governance, the preservation of arts and culture, and the role of the *Desa Adat* in maintaining environmental balance through traditional approaches. Within the framework of Tri Hita Karana, this *Perda* affirms the importance of the *Desa Adat* as a strategic partner to the government in creating sustainable development based on Balinese culture. Thus, the *Desa Adat* is expected to be able to face the challenges of globalization without losing its cultural identity and to remain a guardian of social harmony. The existence of *Perda* No. 4 of 2019, along with Law No. 15 of 2023, serves as a solid foundation for preserving Bali's existence as an island rich in noble culture and traditions.

As a follow-up to the relevant Regional Regulation, the government enacted Law No. 15 of 2023 concerning Bali Province as an effort to respond to the need to preserve Bali's unique culture amid the currents of modernization. Bali, as a center of culture and spirituality, requires a legal foundation capable of preserving the traditional values of its society. A key point in this regulation is the official recognition of the strategic role of the *Desa Adat* as a guardian of social, traditional, and local wisdom. This recognition includes an increase in the authority of the *Desa Adat* to manage customary affairs and its involvement in regional development based on local culture. Thus, this regulation is not only a legal basis but also a means of preserving the cultural identity of Bali as part of the nation's heritage. This law provides a stronger legitimacy to the *Desa Adat* in various aspects, such as natural resource management, the regulation of customary life, and social community relations. The role of the *Desa Adat* is also expanded to include environmental preservation, the development of arts and culture, and the management of tourism based on cultural values. This is in line with the Tri Hita Karana principle, which prioritizes balance in the relationship between humans and God, their fellow beings, and nature. The government hopes that through this regulation, the *Desa Adat* will be able to adapt to changing times without losing its cultural identity. However, the implementation of this law still requires special attention, especially so that the strengthening of the *Desa Adat* does not conflict with other national legal regulations.

The *Desa Adat* in Bali is a customary law community that has its own territory, original social structure, traditional rights, assets, and values and rules of life passed down from generation to generation. The existence of these communities needs to be maintained, fostered, developed, and empowered so that the Balinese people (*Krama Bali*) can be independent in the political, economic, and cultural fields (Senimayura & Agustana, 2020). The Bali Provincial Government has strengthened the existence of the *Desa Adat* through Bali Provincial Regulation No. 4 of 2019 on *Desa Adat* in Bali, which is in line with the

vision, mission, and priority programs of the Governor of Bali, especially in the empowerment of the customary community's economy. Article 60 of the regulation states that the *Desa Adat* has business units called Utsaha Desa Adat. This *Utsaha* consists of an LPD (*Labda Pacingkreman Desa Adat*), a financial institution owned by the *Desa Adat* that operates within its customary territory (*wewidangan*), and a BUPDA (*Baga Utsaha Padruwen Desa Adat*), a business entity owned by the *Desa Adat* that conducts economic activities in the real, service, or public service sectors (excluding the financial sector) based on customary law principles but managed in a modern way. The purpose of these business units is to improve the welfare and self-sufficiency of the Balinese people (*Krama Desa Adat*).

The Bali Provincial Government has enacted Bali Provincial Regulation No. 4 of 2022 concerning Guidelines, Mechanisms, and Establishment of Baga Utsaha Padruwen Desa Adat (BUPDA). This regulation governs the management of BUPDA based on customary law with the aim of making it an economic driver within the *Desa Adat* environment, reflecting the principles of culture, business health, strength, usefulness, and sustainability. This effort is made by maximizing local economic potential and opportunities to support the achievement of Panca Kreta and the implementation of Panca Yadnya at the *Desa Adat* level, while also maintaining, strengthening, and developing the existence of the *Desa Adat* in Bali. This policy provides protection and strengthening for the *Desa Adat* and is an important strategy carried out by the Bali Provincial Government to realize the regional development vision of "Nangun Sat Kerthi Loka Bali" through the Comprehensive Planned Development approach towards the New Bali Era.

Data shows that the establishment of Baga Utsaha Padruwen Desa Adat (BUPDA) in Denpasar City has not been optimal. Out of 35 *Desa Adat*, only 8 (23%) have a real business unit, while the other 27 (77%) have not established a BUPDA. This situation reflects that the development of customary-based businesses in urban areas like Denpasar is still not maximized, despite having great economic potential. In fact, *Desa Adat* in Denpasar should be a model for BUPDA management for other regions in Bali. In reality, the implementation is still far from the expectations mandated by Bali Provincial Regulation No. 4 of 2022, which requires every *Desa Adat* to form a BUPDA as a strategy to strengthen customary-based economic independence. The low rate of policy implementation indicates the need for a comprehensive evaluation and improvement in various aspects to maximize the role of the *Desa Adat* in local economic development. One of the main obstacles to BUPDA implementation is the lack of initiative from the *Desa Adat* in forming real businesses, as well as a weak existing managerial system. The limited human resources (HR) who are competent in business management and financial governance is a significant hindering factor. In addition, the lack of a transparent and organized financial management system for the *Desa Adat* also complicates the implementation of this policy. Although the regional regulation mandates the formation of BUPDA as an effort to achieve customary economic independence, the fact is that many *Desa Adat* in Denpasar have not been able to implement it effectively. Therefore, a comprehensive policy evaluation is needed, including improving HR capacity, strengthening the management system, and improving financial mechanisms so

that *Desa Adat* business units can grow sustainably and be competitive in facing the current economic dynamics.

The low number of *Desa Adat* in Denpasar City that have established Baga Usaha Padruwen *Desa Adat* (BUPDA) reflects a significant problem in the performance of the *Desa Adat*. Out of a total of 35 *Desa Adat* in Denpasar City, only 23%, or about 8 *Desa Adat*, have a real business, while 77%, or 27 *Desa Adat*, have not been able to implement this policy. This shows that the performance of the *Desa Adat* in the aspect of managing real businesses is still very limited. Although Bali Provincial Regulation No. 4 of 2022 governs the obligation to form a BUPDA, the reality is that many *Desa Adat* have not been successful in optimizing their existing potential. This indicates a weakness in the managerial system, resource management, and policy implementation that must be immediately improved to encourage the *Desa Adat* to contribute more to the local economy and the preservation of Balinese culture. The performance of the *Desa Adat* can be understood as the result of their ability to manage and carry out the functions established by regulations and customary values.

Although various work programs have been directed to strengthen the institutions and economy of the *Desa Adat*, this study focuses on the low performance in the formation and management of Baga Usaha Padruwen *Desa Adat* (BUPDA), which should be the spearhead of economic independence based on local potential. The low number of *Desa Adat* that have established a BUPDA in Denpasar City indicates the presence of structural and human resource obstacles that are not yet optimal. Therefore, it is important to examine the extent to which the competence, compensation, and job satisfaction of the Prajuru *Desa Adat* as the main drivers are in implementing the BUPDA effectively and sustainably as a strategic instrument for empowering the economy of the people (*krama*) and preserving customs amid the currents of globalization.

Based on academic studies, organizational performance and employee performance are closely related in the scope of public administration management, where good performance contributes significantly to the achievement of organizational goals (Roos et al., 2022). Research on performance conducted by (Almuarif & Ilmi, 2024; Groenewald et al., 2024; Yusuf et al., 2022) found that the main factor affecting performance is competence. According to Wirata et al. (2021), a part of human resource management is the effort to develop competence through education and training by the leader of an organization. Competence, which includes knowledge, skills, and attitudes, is the main determinant of the effectiveness of a task performed. High performance is highly dependent on how well an individual masters the tasks entrusted to them, as well as the ability to adapt to existing changes and challenges. In the context of public administration, good competence allows individuals to respond to the needs of the organization in an efficient and effective manner. Therefore, competence development is a very important factor in supporting the achievement of organizational goals, with an emphasis on improving relevant technical and non-technical skills for the work being performed.

Research conducted by (Ari Yudani, 2019); (Puspa Pramesti, 2019); (Astuti et al., 2023) shows that competence has a positive and significant effect on performance. Research conducted by (Djati et al., 2024) shows that competence and information technology have a

positive and significant effect on performance. In line with these findings, research conducted by (Milisani et al., 2024) found that competence has a positive and significant impact on performance. The research of (Thalib et al., 2024) analyzed how much influence competence, motivation, and work discipline have on performance, and the results found that competence, motivation, and work discipline together have a positive and significant effect on performance. In the research of (Safitri & Martono, 2024), it was shown that work motivation and competence have a positive and significant effect on employee performance, both partially and simultaneously. However, different results were shown by research conducted by (Hendra et al., 2024; Kristinawati et al., 2024), who found that competence has a positive but not significant effect on performance.

In addition to competence, based on research conducted by (Ardyansyah & Widodo, 2024; Cahyani et al., 2021; Ronaldlo & Rizqi, 2024), it was found that the main factor affecting performance is compensation. Research conducted by (Sari & Sandiasa, 2020) found that compensation has a significant effect on performance. The research of (Adiyanti & Nugraha, 2023), which examined the effect of financial and non-financial compensation, found that both types of compensation have a significant effect on performance. The research of (Wibowo et al., 2024) shows that compensation and organizational climate have a significant effect on employee performance. The research of (Fauzi et al., 2023) shows that compensation has a significant effect on employee performance, with every one-unit increase in compensation increasing employee performance by 25.7%, although other factors also affect employee performance by 69.9%. The research of (Anindi & Prayogi, 2023) found that organizational commitment, work motivation, and compensation have a significant effect on employee performance. However, different results were shown by research conducted by (Pradana, 2017), who found that compensation has a positive but not significant effect on performance.

The Denpasar City Government pays attention to the roles and responsibilities of the Bendesa Adat in maintaining customs, culture, and social harmony in the customary village environment. As a form of appreciation and support for these duties, the Denpasar City Government has established a policy of providing a stipend to the Bendesa Adat and an allowance to the Kelian Adat through Denpasar Mayor's Decree No. 188.45/221/HK/2022 concerning the Provision of Stipends to the Bendesa Adat and Allowances to the Kelian Adat throughout Denpasar City. In the decree, the Bendesa Adat in Denpasar City receives a certain amount of a monthly stipend, which is subject to tax deductions in accordance with applicable tax regulations. The amount of the stipend received.

Based on the data, the Bendesa Adat in Denpasar City receives a monthly stipend of Rp2,000,000. However, the net amount received differs depending on whether they have a Taxpayer Identification Number (NPWP). Bendesa Adat with an NPWP are subject to a 5% tax deduction, or Rp100,000, resulting in a net income of Rp1,900,000. Those without an NPWP face a larger tax deduction of 6%, or Rp120,000, bringing their net income to Rp1,880,000.

This policy aims to support the role of the Bendesa Adat in maintaining tradition, culture, and social harmony within the customary villages. By providing this stipend, the Denpasar City Government hopes to strengthen customary institutions and enable them to contribute to

preserving the cultural identity and local wisdom of Denpasar City. Research indicates that, in addition to competence and compensation, the primary factor influencing performance is job satisfaction, as found in studies by (Deddy, 2022; Fitriadi et al., 2022; Hardiyanti & Yudi, 2023). A study by (Seran et al., 2023) shows that job satisfaction, work motivation, and compensation have a simultaneous effect on performance. Other research (Setiawan et al., 2021; Ayuwangi et al., 2024; Victoria & Edalmen, 2024) confirms that job satisfaction has a positive and significant impact on performance.

Competence also affects satisfaction, a finding supported by research from (Alvani, 2024; Istanti & Hwihanus, 2024; Prihatiningrum & Sri Suwarsi, 2022). (Malik'aiman & Yanti, 2023) showed a positive and significant relationship between competence and job satisfaction. The main findings of (Yumhi, 2021) indicate that work discipline, competence, and work motivation—both individually and together—have a significant effect on job satisfaction, highlighting their importance in human resource planning and development. Research by (Sinambela, 2020) also shows that education, competence, and work experience significantly affect employee job satisfaction.

Compensation is another factor that influences job satisfaction, as found in studies by (Aryani et al., 2024; Syamsudhuha & Abdurahman, 2024). This is consistent with findings from (Elimanafe et al., 2023), which showed that appropriate workload and adequate compensation have a positive and significant effect on employee job satisfaction. (Jarkasih & Suhendar, 2024) also found that organizational culture and compensation systems influence job satisfaction, which, in turn, affects employee performance. Other studies (Emil et al., 2024; Safrila & Oktiani, 2024; Anggraini, 2024) support this, showing that compensation has a positive and significant effect on satisfaction.

There are inconsistencies in previous research findings. While studies by (Almuarif & Ilmi, 2024; Groenewald et al., 2024; Yusuf et al., 2022) found a positive and significant effect of competence on performance, other studies (Hendra et al., 2024; Kristinawati et al., 2024) found that the effect was positive but not significant. This discrepancy led researchers to consider job satisfaction as a mediator, as a study by (Ismail, 2021) demonstrated that satisfaction can be a positive and significant mediator in the relationship between competence and performance.

Similar inconsistencies exist regarding the effect of compensation on performance. Some studies (Ardyansyah & Widodo, 2024; Cahyani et al., 2021; Ronalddo & Rizqi, 2024) found a significant effect, while others did not. This inconsistency also suggests the need to include **job satisfaction as a mediating variable**, as proposed by (Seran et al., 2023), who found that job satisfaction can positively and significantly mediate the relationship between compensation and performance.

## B. LITERATURE REVIEW

### Performance

In general, performance is understood as the result or output of a job, making it closely linked to the concept of productivity. According to Siagian (1997), performance is the outcome of work completed by an individual based on their ability, experience, and level of seriousness. Prawirosentono (1999) explains that performance is the achievement of work by

an individual or group within an organization, carried out according to their respective rights and responsibilities, to achieve the organization's goals in a legal and ethical manner. Gibson (1996) also states that performance or work achievement refers to the expected outcomes of every employee action directly related to job tasks, which are completed to achieve a specific target.

### **Competence**

Margarita and Egle (2016) define competence as an individual's trait or attribute that allows them to complete tasks or handle situations more efficiently. Gupta and Kumar (2016) divide competence into two main categories: organizational and individual competence. Organizational competence includes technical expertise that serves as a key strength over competitors. At the individual level, competence is a combination of knowledge, skills, and habits that influence work outcomes, as explained by Moulton et al. (2016). According to Haruna and Marthandan (2017), competence consists of knowledge, ability, attitude, and personal character. Kuruba (2019) states that competence reflects the capacity to complete work effectively. Sabuhari et al. (2020) add that competence is a fundamental characteristic of employees directly related to their ability to meet the demands of a job position. Maloletko and Kaurova (2021) emphasize that employees with superior professional and personal competence are a key asset to an organization. Renyut et al. (2017) found that competence has a positive and significant effect on job satisfaction, a finding also supported by Wu et al. (2018), who state there is a positive relationship between competence and job satisfaction. However, Adam and Kamase (2019) argue that while competence shows a positive effect on job satisfaction, it is not significant. On the other hand, Utami and Sukmawati (2019) and Wardani and Fatimah (2020) conclude that competence has a significant effect on work engagement.

### **Compensation**

Compensation is the total form of reward given to employees as a form of appreciation for their contributions and performance. Fahraini (2022) categorizes compensation into two main types: direct and indirect financial compensation. Direct financial compensation includes salary, bonuses, and incentives based on work achievements. Meanwhile, indirect compensation includes non-monetary benefits such as health insurance and other employee welfare facilities. According to Gee and Manao (2021), compensation plays an important role in influencing the level of motivation and job satisfaction, so its provision must be fair and commensurate with the contribution given by the employee. Ervina et al. (2023) emphasize that both financial and non-financial compensation must be structured to support the achievement of organizational goals and increase employee morale and job satisfaction. Therefore, compensation is not only material but also a key element in supporting overall professional growth and employee well-being.

Lee et al. (2017) state that job satisfaction includes psychological and physiological aspects related to an employee's satisfaction with their work environment conditions. Robbins and Judge (2017) describe job satisfaction as a positive feeling toward work outcomes and an evaluation of job characteristics. Miao et al. (2017) add that job satisfaction plays an important role in building organizational psychology, which ultimately influences organizational behavior. Abdul et al. (2018) define job satisfaction as a measure of an

employee's level of happiness with their job and position. According to Conte et al. (2019), job satisfaction is the result of a cognitive and affective evaluation of a job. Research by Memon et al. (2016) shows that job satisfaction has a positive and significant effect on work engagement. Renyut et al. (2017) state that competence significantly influences the level of job satisfaction. The study results of Wirawan et al. (2020) also support the finding that job satisfaction has a significant effect on work engagement. Furthermore, Nasrul et al. (2020) identified that job satisfaction acts as a mediating variable between competence and work engagement, as well as between job stress and work engagement. However, research by Ramlawati et al. (2021) shows that job stress has a negative impact on job satisfaction.

### **C. RESEARCH METHODOLOGY**

This research employs a quantitative approach with inferential statistical analysis to test hypotheses and draw conclusions that can be applied to a broader population. The analysis begins with descriptive statistics to present the characteristics of the data based on respondent answers, without aiming for generalization. The descriptive statistics used include frequency tables and calculating the mean value for each indicator, as outlined by Sugiyono (2019: 206).

Next, inferential statistical analysis is performed to test the relationships between variables using Structural Equation Modeling with the Partial Least Squares (SEM-PLS) method, which is run on SmartPLS version 3.0 software. This analysis has two main stages: testing the measurement model (outer model) and the structural model (inner model).

The outer model is evaluated through tests for convergent validity, discriminant validity, composite reliability, and Cronbach's Alpha. An indicator is considered valid and reliable if it meets statistical requirements, such as an outer loading value above 0.70, an AVE value greater than 0.50, and a reliability value above 0.70 (Ghozali, 2016).

The inner model is used to analyze the connections between latent constructs based on existing theory and empirical data. The model is assessed using several indicators, R-square ( $R^2$ ) to evaluate the model's explanatory power, Q-square ( $Q^2$ ) to assess the model's predictive ability, Goodness of Fit (GoF) to measure how well the overall model fits the data.

The  $R^2$  value shows the proportion of variability in the dependent construct that can be explained by the independent constructs. The  $Q^2$  value indicates the model's ability to predict observed data—the closer it is to 1, the better the model.

Hypothesis testing is done using the bootstrap technique through  $t$ -statistics to determine the significance of the relationships between variables. This method does not require the data to be normally distributed and is suitable for small sample sizes. Additionally, the role of mediating variables is analyzed to see if there is an indirect effect in the relationship between the independent and dependent variables. This process is carried out using path analysis within the SEM-PLS framework, which allows for the simultaneous identification of direct and indirect effects, providing a more comprehensive view of the relationship structure between variables in the research model.

### **D. RESULT AND DISCUSSIONS**

#### **Description of Research Variables**

The performance of the *Prajuru* (customary village officials) in Denpasar City's *Desa Adat* (customary villages) was measured using 16 indicators. The results were generally in the high category, with an overall average of 3.85. This suggests that the *Prajuru* have been performing their duties well and responsibly in supporting the implementation of customary work programs. This assessment reflects their success in preserving local wisdom amidst urban dynamics, particularly in executing work programs, managing traditional activities, and contributing to the social and cultural development of the community.

The indicator with the highest score was "I strive to carry out work activities as defined by the *Perarem/Awig-awig* of the *Desa Adat*" with an average of 4.15. This underscores that the *Prajuru* highly uphold customary norms and rules as the basis for their work. High scores were also found for indicators like improving the quality of work (4.14) and punctuality (4.04), which reflect the *Prajuru's* discipline, professionalism, and commitment to creating effective and impactful work programs.

Despite these strengths, some indicators received relatively low scores, such as efforts to improve work quality standards (3.52), time efficiency (3.51), and absence from work activities (3.57). These scores suggest ongoing challenges, including a lack of consistency in work quality, suboptimal time management, and limited attendance. Factors that may contribute to these issues include a high workload, limited human resources, and potential role conflicts between customary duties and other non-village jobs.

Overall, the performance of the *Prajuru* in Denpasar City demonstrates a strong dedication to preserving and developing customary values through organized and adaptive work. To address the identified weaknesses, it's necessary to strengthen capacity through technical training, improve time management, and develop strategies to increase active participation and discipline. Fostering innovation in managing work programs, including customary economic sectors and the digitalization of customary services, can also enhance the *Prajuru's* performance and make the *Desa Adat* a competitive entity in culturally-based development in Denpasar City.

### **Model Feasibility Test**

The model's feasibility was evaluated by first testing the outer model, which analyzed the validity and reliability of the reflective indicators. Convergent validity was confirmed, with all outer loading values above 0.70 and statistically significant at a p-value less than 0.05. This means all indicators are valid for measuring their intended constructs.

Furthermore, discriminant validity was also met. The square root of the Average Variance Extracted ( $\sqrt{AVE}$ ) for each construct was greater than its correlation with other constructs. This finding provides evidence that each indicator primarily represents its own construct, showing good clarity and measurement accuracy within the model. The reliability of the constructs was also confirmed, as both the composite reliability and Cronbach's Alpha values were above 0.60, indicating adequate internal consistency for reliable repeated measurements.

The inner model (or structural model) was then evaluated to assess how well the latent constructs explained the endogenous variables. The R-square ( $R^2$ ) value showed that 96.5% of the variability in the employee performance construct could be explained by the independent constructs. The job satisfaction construct could be explained by 94.1%. These

high  $R^2$  values indicate that the model has very strong explanatory power and accurately represents the relationships between the variables. This also suggests the model is suitable for further research and has relevant practical implications, particularly for developing policies to improve employee performance and satisfaction. Thus, the model has met all feasibility criteria and is ready for hypothesis testing.

### **Hypothesis Testing**

The test for direct relationships between variables showed that all paths were statistically significant at a 5% significance level. Competence had a positive and significant effect on employee performance (coefficient = 0.313,  $p < 0.05$ ). Compensation also had a significant effect on performance (coefficient = 0.633), and job satisfaction had a positive effect on performance (coefficient = 0.357). Additionally, competence had a positive effect on job satisfaction (coefficient = 0.665), and compensation also showed a positive effect on job satisfaction (coefficient = 0.335). All these effects were supported by t-statistic values above 1.96 and significant p-values, confirming that the five main hypotheses about direct effects are accepted.

The test for indirect effects showed that job satisfaction significantly mediated the relationship between competence and performance (mediation coefficient = 0.237). This means that an increase in competence leads to an increase in job satisfaction, which in turn has a positive effect on performance. Similarly, compensation showed a significant indirect effect on performance through job satisfaction (mediation coefficient = 0.120). These two mediation paths confirm that job satisfaction plays a crucial role in bridging the influence of competence and compensation on employee performance, thus supporting the mediation hypotheses in this research model.

### **E. CONCLUSION**

This research confirms that the competence of *Prajuru* (customary village officials) in Denpasar City's *Desa Adat* (customary villages) has a significant positive effect on their performance. *Prajuru* with strong technical skills, a deep understanding of customary law (*awig-awig*), and good communication and independent work abilities tend to perform better in their traditional and socio-economic duties.

The compensation they receive also has a significant positive impact on their performance. Fair and adequate compensation motivates the *Prajuru* to be more effective and productive. Furthermore, job satisfaction plays a crucial role in boosting their performance. *Prajuru* who feel satisfied with their duties, especially through recognition and social support from the community, tend to achieve more optimal results.

Both competence and compensation were found to have a positive and significant effect on job satisfaction. *Prajuru* with high competence and adequate compensation tend to feel more satisfied in carrying out their social and cultural functions. This job satisfaction then acts as a mediator, connecting the influence of competence and compensation to improved performance. In other words, competence and compensation not only directly impact performance but also do so indirectly by first increasing job satisfaction, which ultimately leads to better results.

Based on these findings, it is recommended that *Prajuru* receive continuous and comprehensive training in customary knowledge, leadership, and technical and administrative skills, supported by improved access to information technology. The Denpasar City Government should strengthen its role as a strategic partner by providing institutional support, training budgets, and facilities for developing customary businesses based on local potential.

For future research, it is important to explore the relationship between *Prajuru* leadership and public trust using a qualitative approach. Researchers should also investigate the impact of customary business management on the local economy and examine the role of women in customary institutions to create a more inclusive and effective model for institutional strengthening.

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