



The Mediating Role of Work Motivation in the Effects of Transformational Leadership, Reward System, and Work-Life Balance on Generation Z Employee Performance in Surabaya, Indonesia

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ABSTRACT

This study examines how Transformational Leadership, Reward System, and Work-Life Balance contribute to shaping Employee Performance, with Work Motivation positioned as a mediator variable that explains the underlying psychological process among Generation Z employees in Surabaya, predominantly working in service-oriented sectors. A quantitative cross-sectional design was utilized, collecting data from 200 respondents using Likert-scale questionnaires analyzed through SEM-PLS. The findings reveal that all three factors positively and significantly influence Work Motivation and Employee Performance, both directly and indirectly through Work Motivation as a mediating factor, with Transformational Leadership demonstrating the most dominant influence among the three predictor variables. The model explains 62% of the variance in Employee Performance, highlighting Work Motivation as a key link between organizational practices and performance outcomes. Theoretically, this study extends Self-Determination Theory by demonstrating that, in an emerging market context, Employee Performance is more strongly driven by relational and motivational mechanisms, particularly Transformational Leadership, than by structural factors such as Reward System and Work-Life Balance. Practically, the findings provide actionable insights for organizations in designing context-sensitive human resource strategies tailored to Generation Z employees, emphasizing Transformational Leadership development, adaptive Reward System, and feasible Work-Life Balance practices.

INTRODUCTION

Human resource management is increasingly shaped by changing behaviors among younger workers, especially regarding motivation, leadership preferences, and work-life balance. Generation Z, now a major part of the workforce, shows workplace expectations that differ from earlier generations. Anwar et al. (2022) notes that their motivation is influenced by psychological, organizational, and socio-technological factors, requiring companies to adjust their management strategies to stay effective. Therefore, research on Generation Z work motivation remains highly relevant, as this group has become a dominant segment of the productive workforce across various sectors and demonstrates distinct work preferences compared to previous generations (Mahmoud et al., 2020).

In Indonesia, particularly in the urban labor market such as Surabaya, the employment phenomenon of Generation Z reflects both opportunities and structural challenges for organizations. Badan Pusat Statistik (2025) reports that Surabaya's labor market comprises 1.64 million workers, with 70.59% labor force participation and an open unemployment rate of 4.84%. The employment structure is highly dominated by the service sector (80.01%), followed by manufacturing (19.79%), indicating a shift toward a service-based economy that is closely associated with younger, adaptive workers such as Generation Z. Based on population data by age group (Badan Pusat Statistik, 2025), individuals aged 20–28, representing the segment of Generation Z actively entering the labor market, account for a substantial proportion of Surabaya's working-age population, highlighting their growing presence as an emerging workforce segment. Although employment in Surabaya continues to grow, the increase in informal work (39.27%) and the decline in formal employment (60.73%) indicate concerns regarding job quality and stability. This highlights the need to examine factors affecting motivation, productivity, and retention of Generation Z employees, particularly in service sectors that dominate both the labor market and the study sample.

Although research on Work Motivation has developed extensively, several critical empirical and contextual gaps remain. First, most existing studies predominantly focus on Millennials or adopt a cross-generational perspective (Mahmoud., et al (2020), thereby overlooking the unique behavioral, psychological, and work-related characteristics of Generation Z. This is particularly important as Gen Z exhibits distinct preferences such as a stronger emphasis on flexibility, digital integration, and Work-Life Balance, which may influence how motivation is formed and translated into performance outcomes. Second, prior studies tend to examine determinants of performance such as Transformational Leadership, Reward System, or Work-Life Balance in isolation. There is still a lack of integrative models that simultaneously analyze these variables within a single framework (Kim & Park, 2020; Duru et al., 2023; Nguyen & Malik, 2020). More importantly, limited research positions job motivation as a mediating mechanism that explains how these organizational factors collectively influence Employee Performance.

This creates a theoretical gap in understanding the causal pathways and interaction effects among these variables, especially in the context of Gen Z employees. Most empirical studies have largely been conducted in developed countries, where individualistic cultures, advanced labor markets, and stable organizational systems are dominant (Kim & Park, 2020; Nguyen & Malik, 2020). However, the situation is different in developing contexts such as Indonesia, which is shaped by collectivist cultural values, a high level of informal employment, and more uncertain job security conditions. Recent data from Badan Pusat Statistik (2025) indicates that while labor force participation is increasing, a significant proportion of workers are still engaged in informal sectors (39.27%), highlighting differences in employment structures that may influence motivation and performance differently compared to developed contexts.

Using Self-Determination Theory as its framework, this study analyzes the impact of leadership, rewards, and Work-Life Balance on motivation and performance in Generation Z

employees. Specifically, this study aims to evaluate the direct effects of each organizational factor on Work Motivation, examine their direct effects on Employee Performance, analyze the relationship between Work Motivation and Employee Performance, and investigate the mediating role of Work Motivation in linking Transformational Leadership, Reward System, and Work-Life Balance to Employee Performance. By proposing an integrative model that captures both direct and motivationally mediated pathways, this study extends SDT to a Generation Z context in an emerging market setting. It also explains the psychological mechanisms linking organizational practices to performance and provides insights for HR strategies that suit Generation Z employees' expectations.

LITERATURE REVIEW

Self-Determination Theory

Motivation is explained in Self-Determination Theory (SDT), developed by Edward L. Deci and Richard M. Ryan, as arising from three basic psychological needs: autonomy, competence, and relatedness. The fulfillment of these needs strengthens intrinsic motivation, which in turn improves performance and psychological well-being (Ryan, 2023). In this study, Transformational Leadership, Reward System, and Work-Life Balance are positioned as organizational factors that collectively support these needs by creating a supportive, fair, and balanced work environment. Rather than linking each factor to only one psychological need, these variables are viewed as integrated organizational inputs that strengthen employees' overall motivational orientation, with Work Motivation serving as the psychological mechanism that mediates their influence on Employee Performance. SDT is used as the theoretical foundation because it explains not only the existence of motivation, but also its quality and sustainability. Unlike earlier motivation theories that mainly categorize sources of motivation, SDT distinguishes autonomous motivation, which is driven by interest and personal values, from controlled motivation, which is driven by pressure or external rewards. This distinction is highly relevant for Generation Z employees, whose motivation is often shaped by purpose, autonomy, balance, and relational connection rather than purely extrinsic incentives (Gagné et al., 2022). SDT has also been validated across diverse organizational and cultural contexts, including collectivist and emerging market settings, making it suitable for understanding work behavior in the Indonesian urban labor market.

Within this framework, Work Motivation becomes the central mediating process through which Transformational Leadership, Reward System, and Work-Life Balance are translated into Employee Performance. For Generation Z workers, SDT is particularly relevant because they tend to value meaningful work, independence, and balance between professional and personal life. Its integrative nature allows this study to examine multiple organizational factors as antecedents of motivation, while positioning Work Motivation as the key mechanism linking these factors to performance outcomes. This view is reinforced by Gagné et al. (2022), who emphasize the role of leadership in cultivating intrinsic motivation through autonomy, competence, and relatedness.

Transformational Leadership

Strong leadership is widely recognized as a crucial factor in achieving organizational success. In particular, Transformational Leadership improves Employee Performance by encouraging vision, empowerment, and ethical behavior through four main components: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Putri & Hartono, 2023; Hajiali et al., 2022).

Previous studies highlight its importance in influencing employee outcomes. Pangandaheng and Sutanto (2021) found that leadership significantly improves Employee Performance. However, other studies indicate that its effect may operate indirectly. Resmiati et al. (2024) found that Transformational Leadership influences performance indirectly through

work discipline, while Setiawan and Krisnandi (2024) showed that leadership affects performance through Work Motivation as a mediating variable.

Evidence from previous research shows that the effects of Transformational Leadership are not uniform. While some studies suggest a weak or insignificant positive relationship with Employee Performance, others even find no effect or negative outcomes depending on the context (Prayoga & Nurwulandari, 2025; Sudarmadi & Santosa, 2025).

H1: Transformational Leadership has a positive effect on Work Motivation.

H4: Transformational Leadership has a positive effect on Employee Performance.

H8: Work Motivation mediates the effect of Transformational Leadership on Employee Performance.

Reward System

Organizations commonly implement Reward System as structured tools to recognize and reinforce desired employee behaviors, with the goal of enhancing motivation, job satisfaction, and overall performance through both financial and non-financial incentives. Key components of such systems typically span three categories: monetary rewards such as salary and bonuses, non-monetary rewards such as recognition and scheduling flexibility, and developmental rewards such as training opportunities and career advancement (Laurens et al., 2022; Rahmadhon et al., 2024). Prior studies generally highlight the positive role of Reward System in enhancing motivation and performance.

However, findings are not always consistent. Some studies indicate that Reward System may negatively affect motivation and performance when they are perceived as unfair, inconsistent, or lacking transparency (Duru et al., 2023). The effectiveness of a Reward System depends less on its presence and more on its implementation and employees' perceptions.

H2: Reward System has a positive effect on Work Motivation.

H5: Reward System has a positive effect on Employee Performance.

H9: Work Motivation mediates the effect of Reward System on Employee Performance.

Work-Life Balance

The term Work-Life Balance refers to an individual's ability to maintain a balance between occupational duties and personal life demands. This condition reflects how individuals manage competing roles in a way that supports both mental and physical well-being. Most assessments of Work-Life Balance focus on three aspects: time allocation, level of involvement, and satisfaction across work and personal life (Mulyani & Santosa, 2024; Komang et al., 2024). Research shows that Work-Life Balance enhances motivation and performance by reducing stress and improving psychological well-being (Arlianto et al., 2026; Waworuntu et al., 2022; Ali et al., 2022).

Across various settings, the link between Work-Life Balance and Employee Performance shows inconsistent results, with some studies indicating no significant direct or indirect effect through Work Motivation. This pattern is especially evident in workplace environments that rely heavily on onsite working systems or are constrained by strict operational structures (Nawawi et al., 2025). This indicates that the effectiveness of Work-Life Balance may vary across different labor contexts.

H3: Work-Life Balance has a positive effect on Work Motivation.

H6: Work-Life Balance has a positive effect on Employee Performance.

H10: Work Motivation mediates the effect of Work-Life Balance on Employee Performance.

Work Motivation and Employee Performance

Employee Performance reflects how employees contribute to organizational goals and fulfill job expectations, while Work Motivation is influenced by internal and external factors that direct their efforts toward achieving those goals (Widodo & Maghfuriyah, 2024). The relationship

between the two is well established, as highly motivated employees demonstrate stronger commitment, a greater sense of responsibility, and sustained work effort, which ultimately enhance productivity and effectiveness (Setiawan & Krisnandi, 2024).

Beyond its direct effect, Work Motivation is widely recognized as a mediating variable that explains how various workplace factors influence performance by shaping employees' psychological drive. Setiawan and Krisnandi (2024) found that Work Motivation significantly mediates the relationship between various workplace factors and Employee Performance, reinforcing its role as a key psychological mechanism linking organizational inputs to performance outcomes.

Resmiati et al. (2024) found that Work Motivation has a direct positive effect on Employee Performance. However, empirical evidence is not entirely consistent. Prayoga and Nurwulandari (2025) identified a significant negative relationship between Work Motivation and Employee Performance, while Sudarmadi and Santosa (2025) reported no significant effect between the two variables. This inconsistency indicates that the role of Work Motivation in shaping performance outcomes may vary across contexts and requires further investigation.

H7: Work Motivation has a positive effect on Employee Performance.

METHODS

Using non-probability purposive sampling, this study selected Generation Z employees with a minimum of six months of work experience. While early employment stages are sometimes subject to a honeymoon phase bias, the six-month threshold was established based on organizational socialization considerations. Prior literature explains that newcomer adjustment is a transitional process involving learning, adaptation, and workplace integration before employees develop more stable perceptions regarding organizational practices and work environments (Bauer et al., 2025).

In addition, onboarding research suggests that newcomer adjustment and workplace integration may continue throughout a six-month onboarding phase (Yu et al., 2023). At this stage, employees are generally expected to have completed the standard probationary period and transitioned into regular roles where they experience actual performance evaluations and formal reward systems. Furthermore, Generation Z employees tend to exhibit higher job mobility and distinct work expectations compared to older cohorts (Mahmoud et al., 2020). Therefore, the six-month cutoff was intended to ensure adequate organizational exposure before respondents evaluated their immediate supervisors and work-life balance policies. The respondents were actively working in Surabaya within a cross-sectional quantitative design aimed at examining relationships among variables. The minimum required sample size was determined using G*Power software, incorporating four predictor variables and a statistical power of 0.95, which yielded a threshold of 129 respondents. The final sample consisted of 200 participants who voluntarily completed the survey.

Using a five-point Likert scale (1 = strongly disagree to 5 = strongly agree), data were gathered through a structured questionnaire, with measurement items derived from previously validated instruments. For the Transformational Leadership measurement, respondents were explicitly instructed to evaluate their immediate supervisor (one level above the respondent). The instrument adaptation followed a structured translation procedure: each scale was first translated from English into Indonesian by a bilingual expert and then back translated by an independent bilingual translator to ensure conceptual equivalence. Discrepancies were resolved through consensus.

The final instrument included items measuring Transformational Leadership (8), Reward System (6), Work-Life Balance (5), Work Motivation (6), and Employee Performance (12), the measurement scales for each variable were adapted from established references: Transformational Leadership (Kim & Park, 2020), Reward System (Nguyen & Malik, 2020), Work-

Life Balance (Aruldoss et al., 2020), Work Motivation (Mardanov, 2021), and Employee Performance (Pattnaik & Pattnaik, 2020).

Using SEM-PLS as recommended by Hair et al. (2021), this study evaluated both the measurement and structural models. The assessment of convergent validity relied on outer loadings, composite reliability, and AVE thresholds, while discriminant validity was examined through HTMT, and multicollinearity through VIF.

Structural relationships were tested via bootstrapping with 5,000 resamples, where significance was indicated by t-statistics ≥ 1.96 at $\alpha = 0.05$. To address common method bias, anonymity and confidentiality were assured, variables were separated in the questionnaire, and respondents were informed that no responses were correct or incorrect.

RESULTS

Respondent Profile

A total of 200 Generation Z employees based in Surabaya participated in this study. The demographic composition of the sample was as follows:

- Gender: Most respondents were female (64.5%), while male respondents accounted for 35.5% of the sample.
- Age: Participants were predominantly aged 23–25 years, accounting for 47.5% of the sample, followed by those aged 26–28 years at 37.5%, while the smallest proportion was in the 20–22 years age group at 15.0%
- Industry: Respondents were distributed across several sectors, including creative/media (24.0%), retail/F&B (22.0%), services such as education and healthcare (20.0%), finance/banking (19.5%), information technology (11.5%), and other sectors (3%)
- Work System: Most respondents worked under a Work From Office (WFO) or full onsite system (64.5%), followed by hybrid arrangements (26.5%), and Work From Home (WFH) or fully remote systems (9.0%).
- Employment Status: More than half of the respondents were permanent employees (56.0%), while 32.5% were contract employees and 11.5% were interns.
- Job Level: Most respondents were in staff or non-managerial positions (70.0%), followed by supervisors/team leaders (19.5%) and managerial roles (10.5%).
- Work Experience: The majority had worked for 1–3 years (44.0%), followed by more than 3 years (32.5%) and less than 1 year (23.5%).
- Income: Nearly half of the respondents earned between IDR 4.75–7 million per month (49.5%), while 26.5% earned below IDR 4.75 million. A further 16.5% reported earnings of IDR 7–10 million, and 7.5% earned above IDR 10 million per month.

Outer Model

Table 1. Convergent Validity

Item	Employee Performance	Reward System	Transformational Leadership	Work Motivation	Work-Life Balance
ER1		0.853			
ER2		0.735			
ER3		0.799			
IPF1	0.857				
IPF2	0.785				
IPF3	0.855				
IPF4	0.737				
IR1		0.806			
IR2		0.814			

Item	Employee Performance	Reward System	Transformational Leadership	Work Motivation	Work-Life Balance
IR3		0.829			
JD1	0.724				
JD2	0.831				
JD3	0.794				
JD4	0.804				
TL1			0.702		
TL2			0.783		
TL3			0.733		
TL4			0.778		
TL5			0.773		
TL6			0.787		
TL7			0.774		
TL8			0.753		
TP1	0.822				
TP2	0.793				
TP3	0.798				
TP4	0.782				
WLB1					0.851
WLB2					0.825
WLB3					0.800
WLB4					0.871
WLB5					0.864
WM1				0.869	
WM2				0.740	
WM3				0.826	
WM4				0.758	
WM5				0.810	
WM6				0.780	

Source: Data Processed, 2026

All indicators met convergent validity criteria, with outer loadings above 0.70, reflecting that each construct explained more than 50% of its variance (Hair et al., 2021). Specifically, the Employee Performance construct yielded loading values between 0.724 and 0.857, while the Reward System indicators ranged from 0.806 to 0.829.

Transformational Leadership recorded loadings between 0.702 and 0.787, Work Motivation ranged from 0.740 to 0.869, and Work-Life Balance showed the highest range, from 0.800 to 0.871. These results collectively confirm strong convergent validity across all measurement constructs.

Table 2. Reliability Statistics

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Employee Performance	0.948	0.951	0.955	0.639
Reward System	0.893	0.898	0.918	0.651
Transformational Leadership	0.896	0.899	0.917	0.579
Work Motivation	0.886	0.893	0.913	0.637
Work-Life Balance	0.898	0.902	0.924	0.710

Source: Data Processed, 2026

Reliability indicators show satisfactory results, with all coefficients surpassing the 0.70 threshold, while AVE values above 0.50 indicate that the constructs are able to explain a substantial portion of their indicators' variance.

Table 3. Discriminant Validity (HTMT)

	Employee Performance	Reward System	Transformational Leadership	Work Motivation	Work - Life Balance
Employee Performance					
Reward System	0.650				
Transformational Leadership	0.687	0.645			
Work Motivation	0.813	0.725	0.784		
Work-Life Balance	0.499	0.341	0.403	0.520	

Source: Data Processed, 2026

The strongest HTMT value, recorded at 0.813 between Work Motivation and Employee Performance, indicates a close association between the constructs; however, since all HTMT values are below 0.90, discriminant validity is considered satisfactory. The remaining HTMT values ranged from 0.341 to 0.784, suggesting that all constructs are sufficiently distinct from one another. Notably, Work-Life Balance exhibited the lowest HTMT values (0.341-0.520), indicating that it is the most conceptually distinct construct within the model.

Inner Model (Structural Model)**Table 4. Collinearity Assessment (VIF)**

	Employee Performance	Work Motivation
Reward System	1.852	1.550
Transformational Leadership	2.115	1.621
Work Motivation	2.644	
Work-Life Balance	1.285	1.176

Source: Data Processed, 2026

All VIF values fall between 1.176 and 2.644, remaining below the 3.3 threshold, indicating that multicollinearity is not an issue in the model

Table 5. R-Square (R²)

	R Square	R Square Adjusted
Employee Performance	0.620	0.612
Work Motivation	0.622	0.617

Source: Data Processed, 2026

Employee Performance shows an R² of 0.620 (62.0% variance explained), while Work Motivation records an R² of 0.622 (62.2% variance explained). Both values indicate a moderate to substantial level of explanatory power. With an SRMR value of 0.069—below the 0.08 cutoff—the model can be considered to have a good level of fit.

Table 6. Effect Size (f²)

	Employee Performance	Reward System	Transformational Leadership	Work Motivation	Work - Life Balance
Employee Performance					
Reward System	0.039			0.195	
Transformational Leadership	0.036			0.306	
Work Motivation	0.213				
Work-Life Balance	0.037			0.094	

Source: Data Processed, 2026

Following Hair et al. (2021), Transformational Leadership exerts a large effect on Work Motivation (f² = 0.306). Reward System (f² = 0.195) and Work Motivation (f² = 0.213) show moderate effects, while Work-Life Balance has a relatively small to moderate influence (f² = 0.094). The minimal magnitude of the direct effects on Employee Performance (f² = 0.036–0.039) suggests that the relationship is largely transmitted through Work Motivation as a key mediator.

Table. 7 Hypothesis Test Results

Hypothesis	Path	Coefficient	T-Statistics	P-Value	Decision
H1	TL → WM	0.432	5.447	0.000	Accepted
H2	RS → WM	0.338	5.136	0.000	Accepted
H3	WLB → WM	0.205	4.413	0.000	Accepted
H4	TL → EP	0.170	3.351	0.001	Accepted
H5	RS → EP	0.165	2.638	0.008	Accepted
H6	WLB → EP	0.134	2.670	0.008	Accepted
H7	WM → EP	0.462	6.697	0.000	Accepted
H8	TL → WM → EP	0.200	3.902	0.000	Accepted
H9	RS → WM → EP	0.156	4.469	0.000	Accepted
H10	WLB → WM → EP	0.095	4.004	0.000	Accepted

Source: Data Processed, 2026

The analysis reveals consistent statistical significance across all hypothesized direct effects (p < 0.05), suggesting that Transformational Leadership, Reward System, and Work-Life

Balance contribute positively to Work Motivation and Employee Performance. Additionally, Work Motivation significantly enhances Employee Performance, thereby supporting all hypotheses (H1-H10). The analysis also confirms that Work Motivation significantly mediates all indirect relationships between the independent variables and Employee Performance.

DISCUSSION

Within the framework of Self-Determination Theory, the present study investigates the role of Transformational Leadership, Reward System, and Work-Life Balance in influencing Work Motivation and Employee Performance among Generation Z employees in Surabaya, Indonesia. The empirical results highlight that these factors not only positively drive Work Motivation but also affect Employee Performance through both direct effects and indirect mechanisms. In particular, Work Motivation plays a significant mediating role in translating the influence of Transformational Leadership ($\beta = 0.200$), Reward System ($\beta = 0.156$), and Work-Life Balance ($\beta = 0.095$) into Employee Performance.

These statistically significant indirect effects (all p-values < 0.05) confirm the presence of partial mediation within the model. In addition, Work Motivation has a positive and significant effect on Employee Performance ($\beta = 0.462$, $f^2 = 0.213$), indicating that employees with stronger motivation tend to demonstrate higher performance. This finding is consistent with Setiawan and Krisnandi (2024), Resmiati et al. (2024), and Widodo and Maghfuriyah (2024), who argue that motivated employees tend to demonstrate stronger commitment, persistence, responsibility, and consistent effort.

From the SDT perspective, the fulfillment of autonomy, competence, and relatedness strengthens Work Motivation, encouraging employees to work with greater focus, proactivity, and productivity. These results affirm that Transformational Leadership, Reward System, and Work-Life Balance collectively serve as key determinants of the motivational drive and performance outcomes of Generation Z employees. Transformational Leadership strengthens intrinsic motivation by fostering purpose and perceived autonomy, consistent with Popaitoon (2022). This effect is particularly salient given that 70% of respondents occupy non-managerial, early-career roles (aged 23–25) with limited formal autonomy, indicating that Transformational Leadership functions as a compensatory mechanism that enhances engagement under structural constraints, especially in service-oriented and creative sectors requiring high interaction and adaptability.

Among the Transformational Leadership indicators, TL6, which reflects leaders' appreciation of innovative ideas from team members, recorded the highest outer loading (0.787). This indicates that Intellectual Stimulation is the most salient dimension through which respondents perceive transformational leadership. Intellectual Stimulation refers to leaders' efforts to encourage employees to think critically and creatively, propose new ideas confidently, challenge the status quo, and engage in experimentation, thereby strengthening a learning culture within the organization (Hajjali et al., 2022).

Within the SDT framework, this dimension supports the psychological need for competence because it enables employees to experience growth, mastery, and capability development through creative problem-solving and new idea exploration. This is consistent with Generation Z characteristics, as this cohort tends to be innovation-oriented, digitally fluent, and comfortable with dynamic, collaborative work (Mahmoud et al., 2020). The prominence of this dimension is also supported by the sample's sectoral composition, where creative/media (24.0%), retail/F&B (22.0%), and services such as education and healthcare (20.0%) collectively represent the majority of respondents.

These sectors require continuous adaptation, stakeholder interaction, and responsiveness to dynamic work demands. Therefore, leaders who stimulate and appreciate innovative thinking play an important role in sustaining employees' sense of competence and

intrinsic motivation. Accordingly, the dominant effect of Transformational Leadership on Work Motivation ($\beta = 0.432$, $f^2 = 0.306$) is not merely driven by leadership presence in general, but by leaders' capacity to foster intellectual engagement and competence development, which activates intrinsic motivation among Generation Z employees in line with SDT principles. In addition to its effect on Work Motivation, Transformational Leadership also has a positive and significant direct effect on Employee Performance ($\beta = 0.170$, $f^2 = 0.036$). This indicates that transformational leaders not only enhance employees' motivation, but also directly support performance by providing direction, encouragement, intellectual stimulation, and a supportive work environment.

Reward System is found to have a positive and significant influence Work Motivation, consistent with), Manzoor et al. (2021), Mardanov (2021), and Rahmadhon et al. (2024). Within the SDT framework, extrinsic rewards such as salary, benefits, promotion, and job security address basic economic needs, particularly for contract employees (32.5%) and interns (11.5%) earning IDR 4.75–7 million.

Meanwhile, intrinsic rewards such as appreciation, recognition, pride, and professional value more strongly strengthen intrinsic motivation through the fulfillment of competence and relatedness needs, consistent with Ali et al. (2022), who highlight the greater motivational role of non-monetary incentives in shaping perceived competence beyond economic considerations. Reward System also has a positive and significant direct effect on Employee Performance ($\beta = 0.165$, $f^2 = 0.039$). This suggests that appropriate rewards can directly reinforce productive work behavior by increasing employees' sense of appreciation, fairness, and recognition for their contributions.

Work-Life Balance positively and significantly enhances Work Motivation, consistent with Ali et al. (2022), Aruldoss et al. (2020), and Waworuntu et al. (2022). Within the SDT framework, supportive work-life policies fulfill the psychological needs of autonomy and relatedness by allowing employees adequate time for personal recovery and social connection, thereby sustaining motivational stability.

However, its direct effect on performance remains positive and significant but relatively modest ($\beta = 0.134$, $f^2 = 0.037$), indicating that its role is more strongly related to psychological well-being and motivational stability than to direct performance. This relatively small effect is strongly influenced by the specific characteristics of the respondents. With the dominance of Work From Office (WFO) arrangements (64.5%) and a high concentration of respondents in service-oriented sectors requiring physical presence, the applicability of flexible Work-Life Balance practices is severely constrained. Consequently, Work-Life Balance in this context primarily sustains well-being and motivation rather than directly driving performance, highlighting the need for context-specific interventions such as flexible shift systems, mental health support, and adequate rest policies.

Transformational Leadership has a stronger positive and significant effect on Work Motivation ($\beta = 0.432$) than the Reward System ($\beta = 0.338$), suggesting that Indonesian Generation Z employees respond more to leadership that focuses on development than to material incentives. Importantly, this finding is not merely an artifact of a specific organizational culture, as the respondents are widely distributed across diverse sectors, including creative/media, retail, healthcare, finance, and IT.

This cross-industry profile confirms that the results suggest that intrinsic motivation plays a more dominant role than extrinsic incentives, reinforcing the idea that human resource practices must be adapted to specific contexts such as employee characteristics, industry demands, and local labor conditions, rather than applied uniformly. Despite the significant findings, the interpretation of results must consider certain limitations, particularly the cross-sectional design, which does not allow for causal inference, and the reliance on self-reported data, which may introduce response bias.

These findings offer tangible practical implications for organizations in Surabaya and other major Indonesian cities. First, Transformational Leadership Development programs should emphasize supervisors' ability to provide inspirational vision, emotional support, and empowerment, particularly through structured coaching and mentoring skills training. For organizations with highly hierarchical cultures, this approach is especially crucial as it acts as a compensatory mechanism to build intrinsic motivation even when formal employee autonomy is heavily restricted.

Second, Reward System should adopt an adaptive and balanced approach by integrating both financial compensation and non-financial rewards, including flexible working hours, competency development programs, public recognition of achievements, and opportunities for involvement in innovative projects. Work-Life Balance policies should be applied in a structured way that fits sectoral conditions, including practical measures such as hybrid work systems, flexible scheduling, employee wellness programs (mental health and physical activity support), and more accommodating leave policies.

Finally, organizations should implement targeted Work Motivation improvement interventions through job enrichment, challenging task rotations, and the development of a work culture that supports autonomy and collaboration. Future research should adopt longitudinal designs to capture changes in motivation and performance over time and apply multi-source data approaches by combining employee self-reports, supervisor evaluations, and objective HR data to reduce common method bias.

Further studies are encouraged to integrate additional variables such as organizational culture, job satisfaction, person-job fit, work engagement, and alternative contemporary leadership paradigms like Shared or Servant Leadership, as well as expand the research context across different industries and geographical settings. Future research should include cross-generational comparisons to examine differences in motivation and performance across age cohorts, while also applying mixed-method approaches to gain deeper contextual understanding of the motivational mechanisms found in this study.

CONCLUSION

This study underscores the pivotal role of Work Motivation as a mediating variable in the relationship between Transformational Leadership, Reward System, Work-Life Balance, and Employee Performance, as distinctly evidenced by the positive and significant mediation effects ($\beta = 0.200$, $\beta = 0.156$, and $\beta = 0.095$, respectively). Empirical evidence confirms that these organizational factors positively and significantly shape both motivation and performance through multiple pathways, suggesting that efforts to improve performance should prioritize strategies that reinforce employee motivation. In this context, Transformational Leadership, Reward System, and Work-Life Balance act not only as structural interventions but as drivers of motivational processes that shape Employee Performance.

Within the Surabaya labor context, this study applies Self-Determination Theory to Generation Z employees in an emerging market environment. The findings indicate that Employee Performance is more strongly driven by relational and motivational factors, particularly Transformational Leadership. In contrast, structural factors such as Work-Life Balance and Reward System play a relatively lesser role. Unlike findings in many developed-country contexts, Work-Life Balance exerts a relatively limited direct effect on Employee Performance, largely due to sectoral and work system constraints, including the dominance of onsite roles. Effective management of Generation Z employees depends on adopting human resource strategies that are tailored to specific contexts. Instead of relying on one-size-fits-all models, organizations need to adjust their practices to match local labor market conditions, employee characteristics, and cultural dynamics. Accordingly, this study provides empirical evidence that a motivation-centered managerial approach prioritizing Transformational

Leadership, adaptive Reward System, and contextually grounded Work-Life Balance practices offers a contextually relevant strategy for enhancing Employee Performance among Generation Z in Indonesia's evolving urban labor market.

Given the cross-sectional nature of the study and the dependence on self-reported measures, caution is warranted, as these factors may constrain causal interpretation and reduce the extent to which the findings can be generalized. These limitations suggest that the observed relationships should be understood as associative rather than strictly causal, and may be influenced by respondent perception bias, indicating the need for cautious interpretation of the results.

LIMITATION

Despite its contributions, this study has several limitations. First, the cross-sectional design restricts causal inferences, while reliance on self-reported questionnaires may introduce perception-related biases. Second, the findings are contextually constrained to Generation Z employees in Surabaya, whose specific characteristics, such as the dominance of Work From Office (WFO) arrangements may limit the generalizability of the results to more flexible labor markets. Finally, the current model explains 62% of the variance in Employee Performance; thus, excluding other potential factors leaves a 38% unexplained variance that future studies should address.

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