

The Role of Flexible Work Arrangement on Employee Performance Gen Z Indonesia Through Work Engagement and Psychology Well-Being

Muhamad Reza Pahlevi ¹, Firdaus ^{2*}, Edy Purwanto ³, Muchammad Rully Sjahirul Alim ⁴, Annisa Fajri ⁵

^{1,3,5} Management Study Program, Faculty of Economics, Law, and Business, Universitas Muhammadiyah Semarang, Semarang City, Central Java Province, Indonesia

^{2*4} Master of Management Study Program, Faculty of Economics, Law, and Business, Universitas Muhammadiyah Semarang, Semarang City, Central Java Province, Indonesia

Email: Pahlevireza767@gmail.com ¹, fir@unimus.ac.id ^{2*}, edypurwanto@unimus.ac.id ³, rully@unimus.ac.id ⁴, annisafajri@unimus.ac.id ⁵

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Abstract

Flexible Work Arrangements have become an important human resource strategy for improving employee performance, particularly among Generation Z employees who value flexibility, autonomy, and work-life balance. This study examines the effects of Flexible Work Arrangements on Employee Performance among Generation Z employees in Indonesia, with Work Engagement and Psychological Well-Being examined as potential mediating variables. A quantitative explanatory research design was employed using a survey of 136 Generation Z employees selected through purposive sampling. Data were collected through an online questionnaire and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.1. The measurement model demonstrated satisfactory reliability and validity, with all constructs meeting the recommended criteria for Cronbach's Alpha, Composite Reliability, Average Variance Extracted, and discriminant validity. The structural model revealed that Flexible Work Arrangements significantly and positively influence Work Engagement ($\beta = 0.333$; $p < 0.001$), Psychological Well-Being ($\beta = 0.321$; $p < 0.001$), and Employee Performance ($\beta = 0.219$; $p = 0.019$). Furthermore, Work Engagement ($\beta = 0.285$; $p = 0.030$) and Psychological Well-Being ($\beta = 0.217$; $p = 0.048$) significantly enhance Employee Performance. However, neither Work Engagement nor Psychological Well-Being significantly mediates the relationship between Flexible Work Arrangements and Employee Performance, suggesting that the performance benefits of flexibility may operate more directly rather than primarily through these psychological mechanisms. The findings extend the Job Demands-Resources Theory and Self-Determination Theory by highlighting Flexible Work Arrangements as a direct organizational resource for improving employee performance among Generation Z. Practically, organizations should design flexible work policies that provide employees with greater autonomy while maintaining clear performance expectations, effective managerial support, communication, and appropriate performance management systems to optimize both employee productivity and well-being in the digital workplace.

Keywords:

Flexible Work Arrangement; Employee Performance; Work Engagement; Psychological Well-Being; Generation Z.

1. INTRODUCTION

The emergence of digital transformation, rapid technological innovation, and changing workforce demographics have fundamentally reshaped contemporary organizational practices. One of the most significant developments in human resource management is the implementation of Flexible Work Arrangements (FWA), which provide employees with greater autonomy regarding when, where, and how work is performed. Initially adopted as an alternative work system during the COVID-19 pandemic, FWA has evolved into a long-term strategic human resource policy aimed at enhancing organizational agility, employee satisfaction, and sustainable performance (Allen et al., 2013; Kossek & Thompson, 2016). As organizations increasingly compete for talented employees, particularly among Generation Z (Gen Z), understanding the effectiveness of flexible work practices has become a critical issue in management science and organizational behavior.

Generation Z, generally defined as individuals born between 1997 and 2012, is becoming the dominant segment of Indonesia's productive workforce. According to the Indonesian Central Bureau of Statistics (Badan Pusat Statistik, 2024), Gen Z represents more than one-quarter of the national population and is expected to contribute significantly to the future labor market. Unlike previous generations, Gen Z employees prioritize flexibility, work-life balance, meaningful work, psychological well-being, and technological integration within their work environment (Schroth, 2019; Deloitte, 2024). Consequently, organizations are increasingly adopting flexible working policies to attract and retain this generation. However, despite widespread implementation, empirical evidence regarding whether FWA consistently improves employee performance remains inconclusive, particularly in developing countries such as Indonesia.

Previous studies have reported that flexible work arrangements positively influence employee productivity, job satisfaction, organizational commitment, and work engagement (Allen et al., 2013; Gajendran & Harrison, 2007). Employees who experience greater flexibility tend to perceive higher autonomy, enabling them to allocate their time more effectively and maintain a healthier work-life balance. Moreover, FWA has been associated with reduced work stress, lower turnover intention, and improved psychological health (Kossek et al., 2014). In addition, work engagement, defined as a positive and fulfilling work-related psychological state characterized by vigor, dedication, and absorption (Schaufeli et al., 2002), has consistently been identified as one of the strongest predictors of employee performance (Bakker & Demerouti, 2017).

Similarly, Psychological Well-Being (PWB) has attracted increasing scholarly attention as an essential determinant of sustainable employee performance. Ryff (1989) conceptualized psychological well-being as an individual's positive functioning, including self-acceptance, purpose in life, autonomy, environmental mastery, positive relationships, and personal growth. Employees with higher psychological well-being generally demonstrate greater resilience, motivation, creativity, and organizational citizenship behavior, ultimately contributing to higher performance outcomes (Huppert, 2009; Robertson & Cooper, 2010). Recent organizational research also suggests that flexible working practices may enhance psychological well-being by reducing work-family conflict and increasing employees' perceived control over their work environment (Bellmann & Hübler, 2021).

Despite the growing body of literature, several important research gaps remain. First, previous studies have predominantly examined the direct relationship between Flexible Work Arrangement and employee performance, while limited attention has been given to the underlying psychological mechanisms explaining this relationship. Specifically, empirical research simultaneously incorporating Work Engagement and Psychological Well-Being as mediating variables remains relatively scarce, particularly in the Southeast Asian context (Bakker & Demerouti, 2017; Bellmann & Hübler, 2021). Second, most existing studies have focused on employees from mixed generational cohorts without distinguishing the unique behavioral characteristics of Generation Z. Considering that Gen Z possesses different work values, digital competencies, career expectations, and psychological needs compared to previous generations (Schroth, 2019), findings from earlier studies may not adequately explain their work behaviors. Third, empirical investigations concerning flexible work practices in Indonesia are still limited, although Indonesian organizations have increasingly institutionalized hybrid and flexible working systems following the pandemic.

Grounded in the Job Demands–Resources (JD-R) Theory (Bakker & Demerouti, 2007) and Self-Determination Theory (Deci & Ryan, 2000), this study argues that Flexible Work Arrangements function as valuable organizational resources that stimulate employee motivation and psychological functioning. Flexible work practices provide greater autonomy and perceived organizational support, fostering stronger work engagement while simultaneously improving employees' psychological well-being. These positive psychological states subsequently encourage employees to perform their work more effectively, efficiently, and proactively.

Based on these considerations, this study addresses the following research question: How do Flexible Work Arrangements influence the performance of Generation Z employees in Indonesia, and to what extent are these relationships mediated by Work Engagement and Psychological Well-Being? This question seeks to clarify the mechanisms through which flexible work policies contribute to sustainable employee performance within Indonesia's emerging digital workforce.

Accordingly, the primary objectives of this study are: (1) to examine the direct effect of Flexible Work Arrangement on Employee Performance among Generation Z employees in Indonesia; (2) to investigate the

influence of Flexible Work Arrangement on Work Engagement and Psychological Well-Being; (3) to analyze the effects of Work Engagement and Psychological Well-Being on Employee Performance; and (4) to evaluate the mediating roles of Work Engagement and Psychological Well-Being in the relationship between Flexible Work Arrangement and Employee Performance using Structural Equation Modeling–Partial Least Squares (PLS-SEM).

This research contributes to the literature in several important ways. Theoretically, it extends the application of Job Demands–Resources Theory and Self-Determination Theory by integrating Work Engagement and Psychological Well-Being as complementary mediating mechanisms within the Flexible Work Arrangement–Employee Performance relationship. Furthermore, it enriches the growing literature on Generation Z workforce management by providing empirical evidence from Indonesia, a context that remains underrepresented in international management research. Practically, the findings are expected to assist organizational leaders, human resource managers, and policymakers in designing flexible work policies that not only enhance employee performance but also promote employee engagement and psychological well-being. Such evidence is increasingly relevant as organizations continue adapting to digital transformation and evolving workforce expectations.

The remainder of this paper is organized as follows. The next section reviews the theoretical foundations and develops the research hypotheses. The methodology section describes the research design, sampling procedure, measurement instruments, and data analysis using PLS-SEM. The results section presents the empirical findings, including measurement and structural model evaluations. The discussion section interprets the findings in relation to previous studies and theoretical perspectives, while the final section concludes the study, outlines managerial implications, acknowledges limitations, and provides recommendations for future research.

1.1. Flexible Work Arrangement and Work Engagement

Flexible Work Arrangement (FWA) refers to organizational policies that provide employees with flexibility regarding work schedules, work locations, and work methods while maintaining expected performance outcomes (Allen et al., 2013). In the era of digital transformation, FWA has become a strategic human resource practice because it enables organizations to respond more effectively to employees' changing work preferences, particularly among Generation Z employees who value autonomy, work-life balance, and technological flexibility (Deloitte, 2024).

According to the Job Demands–Resources (JD-R) Theory, organizational resources such as work flexibility reduce job strain while simultaneously enhancing employees' intrinsic motivation and psychological energy (Bakker & Demerouti, 2017). Employees who experience greater flexibility generally perceive stronger organizational support, which increases their enthusiasm, dedication, and concentration while performing work. Consequently, flexible work policies function as valuable job resources that stimulate higher levels of work engagement. Recent empirical evidence consistently supports this relationship. Abdelmoteleb et al. (2023) found that flexible working practices significantly improve employee engagement by increasing job autonomy and reducing work-related stress. Likewise, Wolor et al. (2024) reported that hybrid working arrangements positively influence employees' work engagement through enhanced work-life balance and organizational trust. Similar findings were also reported by Saks (2022), demonstrating that organizations providing greater workplace flexibility tend to cultivate more engaged employees because flexibility enhances employees' psychological attachment to their work. Generation Z employees are particularly responsive to flexible working environments because they emphasize freedom, digital connectivity, and meaningful work experiences (Schroth, 2019). Therefore, Flexible Work Arrangement is expected to strengthen employees' engagement toward their work responsibilities. H1: Flexible Work Arrangement positively influences Work Engagement.

1.2. Flexible Work Arrangement and Psychological Well-Being

Psychological Well-Being (PWB) reflects an individual's positive psychological functioning characterized by autonomy, personal growth, purpose in life, positive relationships, environmental mastery, and self-acceptance (Ryff, 1989). Recent research continues to emphasize Psychological Well-Being as a multidimensional construct that is closely associated with individuals' ability to adapt, develop meaningful life goals, maintain positive social relationships, and effectively manage environmental demands in contemporary social and organizational contexts (García-Álvarez, et al., 2026; OECD, 2025; World Happiness Report, 2026). Within organizational settings, psychological well-being represents employees' ability to maintain positive mental functioning while coping effectively with work demands. The Self-Determination Theory (SDT) argues that autonomy is one of the fundamental psychological needs required for optimal well-being (Ryan & Deci, 2020). Flexible Work Arrangement satisfies employees' need for autonomy by allowing greater discretion in determining work schedules and locations. Such flexibility reduces work-family conflict and increases perceived organizational support, thereby enhancing employees' psychological well-being.

Recent studies have confirmed these theoretical arguments. Bellmann & Hübner (2021) found that employees working under flexible arrangements report significantly higher levels of psychological well-being than employees working under traditional work systems. More recently, Chung & van der Horst (2023)

demonstrated that hybrid working improves mental health and emotional well-being by increasing work autonomy and reducing commuting-related stress. Likewise, Eurofound (2024) reported that flexible work practices contribute positively to employee well-being across various European organizations. For Generation Z employees, flexibility is not merely a work arrangement but an important determinant of mental health and quality of life. Therefore, organizations implementing flexible working policies are expected to enhance employees' psychological well-being.

H2: Flexible Work Arrangement positively influences Psychological Well-Being.

1.3. Flexible Work Arrangement and Employee Performance

Employee Performance represents employees' ability to accomplish assigned tasks efficiently while achieving organizational objectives (Koopmans et al., 2014). In today's digital workplace, organizations increasingly recognize Flexible Work Arrangement as an important mechanism for improving individual performance. According to the Job Demands–Resources Theory, flexible working arrangements provide additional organizational resources that enable employees to optimize their work performance. Employees who experience greater flexibility generally allocate their working time more efficiently, experience lower stress levels, and demonstrate higher productivity.

Empirical evidence supports this relationship. De Menezes & Kelliher (2023) found that flexible work arrangements significantly improve employee productivity through enhanced autonomy and reduced work exhaustion. Similarly, bloom et al. (2024) reported that hybrid work policies increase employee performance without reducing organizational productivity. In Indonesia, Prasetyo et al. (2024) also observed that employees experiencing flexible working arrangements achieved better individual performance due to increased work-life balance and job satisfaction.

Considering the digital characteristics of Generation Z employees, workplace flexibility is expected to directly improve employee performance.

H3: Flexible Work Arrangement positively influences Employee Performance.

1.4. Work Engagement and Employee Performance

Work Engagement refers to a positive, fulfilling psychological state characterized by vigor, dedication, and absorption while performing work (Schaufeli et al., 2006). Engaged employees devote greater physical, cognitive, and emotional resources to their work responsibilities. Within the JD-R framework, work engagement serves as a motivational mechanism translating organizational resources into positive work outcomes (Bakker & Demerouti, 2017). Employees demonstrating high engagement are generally more productive, innovative, and committed to organizational goals.

Recent studies consistently confirm this relationship. Knight et al. (2023) concluded that work engagement significantly enhances employee productivity across multiple industries. Likewise, Saks & Gruman (2024) reported that engaged employees consistently exhibit higher individual performance and organizational citizenship behavior. Furthermore, Jena et al. (2023) found that work engagement significantly predicts employee performance among digital employees working under hybrid work arrangements. Accordingly, higher levels of work engagement are expected to improve employee performance.

H4: Work Engagement positively influences Employee Performance.

1.5. Psychological Well-Being and Employee Performance

Psychological Well-Being reflects employees' positive psychological functioning, enabling them to manage workplace challenges effectively while maintaining motivation and resilience (Ryff & Keyes, 1995). Employees with higher psychological well-being generally demonstrate stronger emotional stability, creativity, adaptability, and organizational commitment, ultimately leading to higher work performance. The Self-Determination Theory explains that psychologically healthy employees possess greater intrinsic motivation and persistence in achieving organizational objectives.

Recent empirical studies support this proposition. Donaldson et al. (2022) demonstrated that psychological well-being significantly predicts employee performance across service organizations. Similarly, Zacher & Rudolph (2023) found that employees experiencing better psychological well-being exhibit higher productivity and lower burnout levels. Nielsen et al. (2024) further concluded that psychological well-being has become one of the strongest predictors of sustainable employee performance in modern workplaces.

Therefore, employees with better psychological well-being are expected to demonstrate higher work performance.

H5: Psychological Well-Being positively influences Employee Performance.

1.6. The Mediating Role of Work Engagement

The Job Demands–Resources Theory proposes that organizational resources first enhance employees' motivational states before improving organizational outcomes (Bakker & Demerouti, 2017). Flexible Work Arrangement provides employees with greater autonomy and flexibility, increasing their work engagement, which subsequently enhances performance. Recent studies have supported this mediation mechanism. Abdelmoteleb et al. (2023) found that work engagement partially mediates the relationship between flexible

working practices and employee performance. Similarly, Jena et al. (2023) reported that employees receiving greater workplace flexibility demonstrate stronger engagement, resulting in improved performance outcomes.

Based on these theoretical and empirical arguments, work engagement is expected to mediate the influence of Flexible Work Arrangement on Employee Performance.

H6: Work Engagement mediates the relationship between Flexible Work Arrangement and Employee Performance.

1.7. The Mediating Role of Psychological Well-Being

The Self-Determination Theory suggests that workplace autonomy enhances employees' psychological well-being, which subsequently promotes positive behavioral outcomes, including higher performance (Ryan & Deci, 2020). Flexible Work Arrangement satisfies employees' psychological needs by reducing work-related stress and enhancing work-life balance. Consequently, employees with stronger psychological well-being are more capable of maintaining concentration, resilience, and productivity while performing organizational tasks.

Recent evidence supports this mechanism. Chung & van der Horst (2023) demonstrated that psychological well-being mediates the relationship between flexible working arrangements and employee outcomes. Likewise, Donaldson et al. (2022) reported that employee well-being serves as an important psychological pathway linking organizational practices to performance improvement. Therefore, Psychological Well-Being is expected to mediate the relationship between Flexible Work Arrangement and Employee Performance.

H7: Psychological Well-Being mediates the relationship between Flexible Work Arrangement and Employee Performance.

2. RESEARCH METHOD

2.1. Research Design

This study employed a quantitative research approach using an explanatory research design to examine the causal relationships among Flexible Work Arrangement (FWA), Work Engagement (WE), Psychological Well-Being (PWB), and Employee Performance (EP) among Generation Z employees in Indonesia. Quantitative research is appropriate because it enables researchers to test theoretically derived hypotheses through statistical analysis and objectively measure relationships among latent constructs (Creswell & Creswell, 2023; Hair et al., 2024).

The explanatory design was selected because this study aims to investigate both direct and indirect effects among variables through mediating mechanisms. Specifically, this research examines whether Work Engagement and Psychological Well-Being mediate the relationship between Flexible Work Arrangement and Employee Performance. The conceptual model is grounded in the Job Demands–Resources (JD-R) Theory (Bakker & Demerouti, 2017) and Self-Determination Theory (SDT) (Ryan & Deci, 2020), which posit that organizational resources such as work flexibility enhance employee motivation and psychological functioning, ultimately improving job performance.

Considering the complexity of the proposed structural model involving multiple mediating variables, Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed. PLS-SEM is particularly suitable for predictive research, theory extension, mediation analysis, and models containing multiple latent constructs measured by numerous indicators (Hair et al., 2022; Hair et al., 2024).

2.2. Population and Sample

The target population of this study comprised Generation Z employees in Indonesia who work in organizations implementing Flexible Work Arrangements (FWA), including hybrid work, remote work, flexible working hours, or work-from-anywhere policies. Following Schroth (2019), Generation Z refers to individuals born between 1997 and 2012. In this study, respondents were limited to employees aged 18–29 years who had worked in their current organization for at least six months and had experienced flexible working arrangements.

The sample was selected using purposive sampling, a non-probability sampling technique that allows researchers to select respondents based on specific characteristics relevant to the research objectives (Sekaran & Bougie, 2020). The inclusion criteria required respondents to (1) belong to Generation Z, (2) currently work in an organization implementing Flexible Work Arrangements, (3) have at least six months of work experience, and (4) voluntarily participate in the study.

The determination of the sample size followed the recommendation of Hair et al. (2022; 2024), which suggests that in multivariate analysis and Structural Equation Modeling (SEM), the minimum sample size should range between 5 and 10 times the total number of measurement indicators. The research model consists of four latent variables, namely Flexible Work Arrangement, Work Engagement, Psychological Well-Being, and Employee Performance. Each construct is measured using four indicators, resulting in a total of 16 measurement indicators.

Based on Hair et al.'(2022) recommendation, the minimum sample size ranges from 80 respondents (16×5) to 160 respondents (16×10). This study employed 136 valid respondents, which falls within the recommended range and is therefore considered adequate for analysis using Partial Least Squares Structural Equation Modeling (PLS-SEM). According to Hair et al. (2022), PLS-SEM performs effectively with relatively small to medium sample sizes, particularly in predictive and exploratory studies involving complex structural relationships.

2.3. Data Collection Procedure

Primary data were collected using an online self-administered questionnaire distributed through Google Forms between January and March 2026. The questionnaire link was disseminated via: LinkedIn professional communities; Corporate employee networks; WhatsApp groups; Instagram; Telegram; University alumni associations. Before completing the questionnaire, respondents were informed about the purpose of the study, confidentiality procedures, voluntary participation, and estimated completion time. Only respondents providing informed consent were allowed to continue. To minimize common method bias, several procedural remedies recommended by Podsakoff et al. (2003) were implemented: anonymous responses; randomized item order; simple and unambiguous wording; assurance that there were no right or wrong answers.

2.4. Measurement of Variables

The research model consists of four latent variables, namely Flexible Work Arrangement (FWA), Work Engagement (WE), Psychological Well-Being (PWB), and Employee Performance (EP). To maintain measurement consistency and model parsimony, each latent variable was operationalized using four reflective indicators, adapted from well-established instruments in previous studies. All questionnaire items were measured using a five-point Likert scale, ranging from 1 = Strongly Disagree to 5 = Strongly Agree, which is widely recommended in organizational and behavioral research because it provides sufficient response variation while minimizing respondent burden (Hair et al., 2024).

Table 1. Operational Definition of Variables

Variable	Operational Definition	Number of Indicators	References
Flexible Work Arrangement (FWA)	Employees' perceptions regarding flexibility in work schedules, workplace, and work autonomy provided by the organization.	4 Indicators	Allen et al. (2013); Kossek & Thompson (2016)
Work Engagement (WE)	Employees' positive psychological state characterized by vigor, dedication, and absorption while performing their work.	4 Indicators	Schaufeli et al. (2006)
Psychological Well-Being (PWB)	Employees' positive psychological functioning reflected in personal growth, autonomy, positive relationships, and purpose in life.	4 Indicators	Ryff (1989); Ryff & Keyes (1995)
Employee Performance (EP)	The level of employees' work achievement reflected through effectiveness, quality, productivity, and responsibility.	4 Indicators	Koopmans et al. (2014)

Thus, the research instrument consisted of a total of 16 reflective measurement indicators, all of which were adapted and modified to fit the context of Flexible Work Arrangements among Generation Z employees in Indonesia. Prior to the main survey, the questionnaire was reviewed by experts and pilot-tested to ensure clarity, content validity, and contextual relevance. Subsequent assessments of convergent validity, discriminant validity, and reliability were conducted using the PLS-SEM measurement model following the recommendations of Hair et al. (2022, 2024).

2.5. Questionnaire Development

The questionnaire consisted of two sections. The first section collected respondents' demographic information, including: gender; age; educational background; employment sector; work experience; type of Flexible Work Arrangement; monthly income. The second section measured the research constructs.

Table 2. Research Questionnaire Instrument

Variable	Code	Questionnaire Statement	References
Flexible Work Arrangement (FWA)	FWA1	My organization provides flexibility in determining my working hours.	Allen et al. (2013); Kossek & Thompson (2016)
	FWA2	I have flexibility in choosing my work location (office, home, or other locations).	Allen et al. (2013); Kossek & Thompson (2016)

	FWA3	I have sufficient autonomy in organizing how I complete my work tasks.	Allen et al. (2013); Kossek & Thompson (2016)
	FWA4	Flexible work arrangements help me balance my work and personal life.	Allen et al. (2013); Kossek & Thompson (2016)
Work Engagement (WE)	WE1	I feel energetic when carrying out my work.	Schaufeli et al. (2006)
	WE2	I am enthusiastic and dedicated to my work.	Schaufeli et al. (2006)
	WE3	I am fully concentrated while performing my job.	Schaufeli et al. (2006)
	WE4	I feel motivated to give my best performance at work every day.	Schaufeli et al. (2006)
Psychological Well-Being (PWB)	PWB1	I feel that my work contributes positively to my personal growth.	Ryff (1989); Ryff & Keyes (1995)
	PWB2	I feel capable of making independent decisions related to my work.	Ryff (1989); Ryff & Keyes (1995)
	PWB3	I have positive relationships with my colleagues at work.	Ryff (1989); Ryff & Keyes (1995)
	PWB4	I believe my work provides meaning and purpose in my life.	Ryff (1989); Ryff & Keyes (1995)
Employee Performance (EP)	EP1	I consistently complete my work according to the expected quality standards.	Koopmans et al. (2014)
	EP2	I complete my assigned tasks on time.	Koopmans et al. (2014)
	EP3	I achieve my work targets effectively.	Koopmans et al. (2014)
	EP4	I take responsibility for completing my work accurately and efficiently.	Koopmans et al. (2014)

2.6. Instrument Validity and Reliability

Content validity was established through expert evaluation involving three senior academics specializing in Human Resource Management and Organizational Behavior. A pilot study involving 40 respondents was conducted to examine instrument clarity and preliminary reliability. Subsequently, measurement validity was evaluated using PLS-SEM by assessing: Outer loading (>0.70); Average Variance Extracted (AVE >0.50); Composite Reliability (>0.70); Cronbach's Alpha (>0.70); ρ_A (>0.70); Discriminant validity was evaluated using: Heterotrait-Monotrait Ratio (HTMT <0.90); Fornell-Larcker Criterion; Cross Loadings. These evaluation criteria follow recommendations by Hair et al. (2022; 2024).

2.7. Data Analysis Technique

The data collected from the respondents were analyzed using SmartPLS version 4.1, which is widely recognized as an appropriate statistical software for estimating complex causal models using Partial Least Squares Structural Equation Modeling (PLS-SEM). PLS-SEM was selected because it is prediction-oriented, capable of handling relatively small sample sizes, and suitable for analyzing complex models involving multiple latent variables and mediating relationships (Hair et al., 2022; Hair et al., 2024). The analytical procedures consisted of five sequential stages.

Step 1. Data Screening

The first stage involved screening the collected data to ensure their quality before conducting the structural analysis. The dataset was examined for incomplete responses, duplicate entries, missing values, response consistency, and potential outliers. Questionnaires containing substantial missing data or inconsistent response patterns were removed from the dataset to improve the accuracy and reliability of the subsequent analyses. This screening process ensured that only valid questionnaires were retained for further statistical analysis (Hair et al., 2022).

Step 2. Descriptive Statistics

After the data screening process, descriptive statistical analysis was performed to describe the demographic characteristics of the respondents and provide an overview of the research sample. Respondent profiles were summarized using frequency distributions and percentages for categorical variables such as gender, age, educational background, employment sector, and work experience. In addition, the mean and standard deviation were calculated for each research indicator to describe respondents' perceptions of Flexible Work Arrangement, Work Engagement, Psychological Well-Being, and Employee Performance. These descriptive statistics provide preliminary insights into the distribution and central tendency of the collected data (Sekaran & Bougie, 2020).

Step 3. Measurement Model Evaluation

The next stage involved evaluating the reflective measurement model (outer model) to ensure the validity and reliability of the measurement instruments. Indicator reliability was assessed by examining the outer loading values, with loadings above 0.70 indicating acceptable reliability. Internal consistency reliability was evaluated using Cronbach's Alpha, Composite Reliability (CR), and ρ_A , where values greater than 0.70 indicate satisfactory reliability. Convergent validity was assessed using the Average Variance Extracted (AVE), with a minimum threshold of 0.50, indicating that each construct explains more than half of the variance of its indicators. Discriminant validity was evaluated using the Fornell–Larcker Criterion, Cross Loadings, and the Heterotrait–Monotrait Ratio (HTMT), where HTMT values below 0.90 indicate adequate discriminant validity (Hair et al., 2022; Hair et al., 2024).

Step 4. Structural Model Evaluation

After confirming the adequacy of the measurement model, the structural model (inner model) was evaluated to examine the hypothesized relationships among the latent variables. Prior to estimating the structural relationships, collinearity was assessed using the Variance Inflation Factor (VIF), with values below 5 indicating the absence of multicollinearity issues. The significance of the structural paths was then assessed by estimating the path coefficients (β) and conducting a bootstrapping procedure with 5,000 resamples, as recommended by Hair et al. (2022). The explanatory power of the model was evaluated using the Coefficient of Determination (R^2), while the contribution of each exogenous construct was assessed through the Effect Size (f^2). Furthermore, the model's predictive capability was examined using the Predictive Relevance (Q^2) obtained through the blindfolding procedure. Overall model fit was evaluated using the Standardized Root Mean Square Residual (SRMR), where values below 0.08 indicate an acceptable model fit.

Hypothesis testing was conducted based on the bootstrapping results. A structural relationship was considered statistically significant when the t-statistic exceeded 1.96 and the p-value was less than 0.05, corresponding to a 95% confidence level. These criteria are consistent with the recommendations of Hair et al. (2022; 2024) for assessing significance in PLS-SEM.

Step 5. Mediation Analysis

Finally, mediation analysis was performed to examine whether Work Engagement and Psychological Well-Being mediated the relationship between Flexible Work Arrangement and Employee Performance. The indirect effects were estimated using the bootstrapping approach with 5,000 subsamples, which is considered the most robust method for testing mediation effects in PLS-SEM (Hair et al., 2022; Zhao et al., 2010). The mediation effect was considered statistically significant when the indirect effect produced a p-value below 0.05 and the corresponding 95% confidence interval did not include zero. This procedure enabled the study to determine whether the mediating variables fully or partially explained the influence of Flexible Work Arrangement on Employee Performance among Generation Z employees in Indonesia.

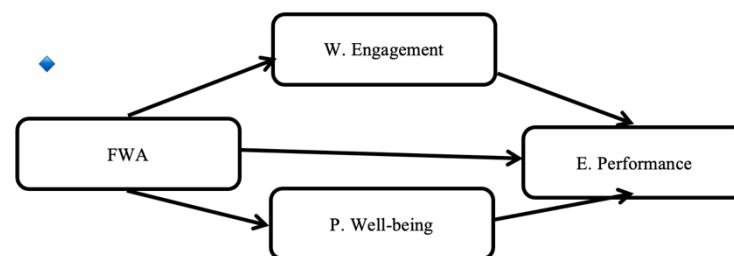


Figure 1. Research Framework

2.8. Ethical Considerations

This study adhered to internationally accepted ethical standards for social science research (American Psychological Association, 2020). Participation was voluntary, and respondents provided informed consent before completing the questionnaire. No personally identifiable information was collected, and all responses were analyzed anonymously. Participants were informed that they could withdraw from the study at any time without consequences. The collected data were stored securely and used solely for academic research purposes.

2.9. Methodological Limitations

Several limitations should be acknowledged. First, this study employed a cross-sectional design, which limits causal inference among the examined variables. Future research may adopt longitudinal designs to capture changes in employee perceptions over time. Second, data were collected using self-reported questionnaires, which may introduce common method variance despite procedural remedies implemented during data collection. Third, the use of purposive sampling may limit the generalizability of the findings to all Indonesian employees. Nevertheless, purposive sampling is considered appropriate because the study specifically targeted Generation Z employees who have experience with Flexible Work Arrangements. Despite these limitations, the relatively large sample size, validated measurement instruments, and rigorous PLS-SEM procedures provide robust empirical evidence regarding the influence of Flexible Work Arrangements on

Employee Performance through Work Engagement and Psychological Well-Being among Generation Z employees in Indonesia.

3. RESULTS AND DISCUSSION

3.1. Respondent Profile

This study involved 136 valid respondents, all of whom met the predetermined inclusion criteria, namely Generation Z employees aged between 18 and 29 years who had experienced Flexible Work Arrangements (FWA) in their current organizations. Prior to statistical analysis, the collected questionnaires underwent a data screening process to identify incomplete responses, duplicate entries, missing values, inconsistent response patterns, and potential outliers. The screening results indicated that all 136 questionnaires were suitable for further analysis.

Descriptive statistics were subsequently employed to summarize respondents' characteristics and provide an overview of the research variables. The mean values of all constructs were above the midpoint of the measurement scale, indicating that respondents generally perceived their organizations to have implemented flexible work arrangements effectively while simultaneously demonstrating relatively high levels of work engagement, psychological well-being, and employee performance.

3.2. Measurement Model Evaluation

The measurement model was evaluated to ensure that all constructs satisfied the requirements of validity and reliability before testing the structural relationships. Following Hair et al. (2022; 2024), the evaluation included indicator reliability, internal consistency reliability, convergent validity, and discriminant validity.

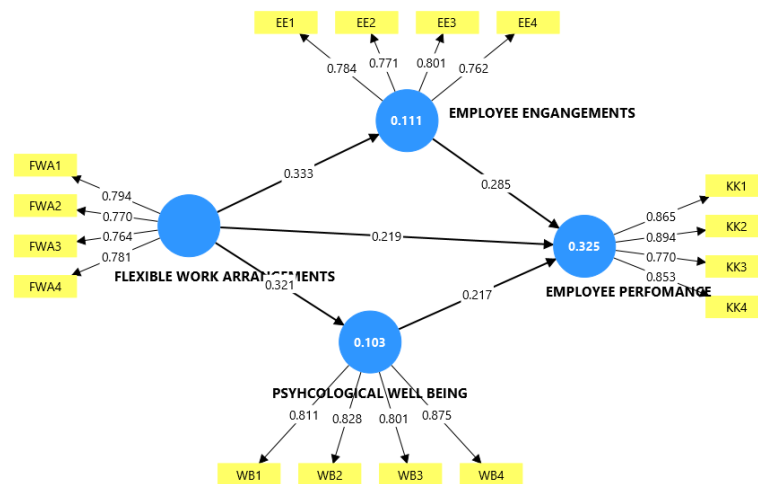


Figure 2. Full Model

3.2.1. Indicator Reliability

Indicator reliability was assessed by examining the outer loading values of each measurement indicator. As presented in Figure 1 (SmartPLS output), all indicators demonstrated outer loading values exceeding the recommended threshold of 0.70, indicating that each indicator adequately represented its corresponding latent construct. Consequently, no indicators were removed from the measurement model.

3.2.2. Internal Consistency Reliability and Convergent Validity

Internal consistency reliability was evaluated using Cronbach's Alpha and Composite Reliability (CR), while convergent validity was assessed using the Average Variance Extracted (AVE).

Table 3. Construct Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability	AVE
Flexible Work Arrangement	0.782	0.859	0.604
Work Engagement	0.787	0.861	0.608
Psychological Well-Being	0.853	0.898	0.688
Employee Performance	0.867	0.910	0.717

Table 3 demonstrates that all constructs exceeded the recommended thresholds of Cronbach's Alpha (>0.70) and Composite Reliability (>0.70), confirming satisfactory internal consistency reliability (Hair et al.,

2022). Likewise, all AVE values were above 0.50, indicating that each latent construct explained more than 50% of the variance of its indicators. Therefore, convergent validity was successfully established.

3.2.3. Discriminant Validity

Discriminant validity was examined using the Heterotrait-Monotrait Ratio (HTMT).

Table 4. HTMT Results

Relationship	HTMT
FWA ↔ Work Engagement	0.416
FWA ↔ Employee Performance	0.455
FWA ↔ Psychological Well-Being	0.373
Work Engagement ↔ Employee Performance	0.577
Work Engagement ↔ Psychological Well-Being	0.780
Psychological Well-Being ↔ Employee Performance	0.508

All HTMT values were below the recommended threshold of 0.90, confirming satisfactory discriminant validity among the study constructs (Hair et al., 2022). These findings indicate that each construct measured a distinct theoretical concept without substantial overlap. Overall, the measurement model demonstrated acceptable psychometric properties and was therefore appropriate for structural model analysis.

3.3. Structural Model Evaluation

Following the confirmation of measurement model adequacy, the structural model was evaluated to determine the predictive power of the proposed conceptual framework.

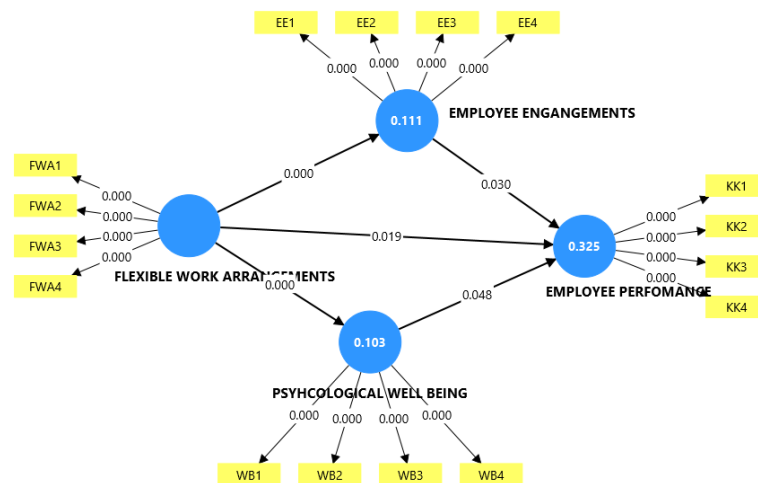


Figure 3. Bootstrapping

The explanatory power of the endogenous variables was assessed using the coefficient of determination (R^2).

Table 5. Coefficient of Determination

Endogenous Variable	R^2	Interpretation
Work Engagement	0.111	Weak
Psychological Well-Being	0.103	Weak
Employee Performance	0.325	Moderate

The results indicate that Flexible Work Arrangement explained 11.1% of the variance in Work Engagement and 10.3% of the variance in Psychological Well-Being. Furthermore, Flexible Work Arrangement, Work Engagement, and Psychological Well-Being jointly explained 32.5% of the variance in Employee Performance. According to Hair et al. (2022), this value represents a moderate predictive capability.

3.4. Hypothesis Testing

The structural relationships were estimated using the bootstrapping procedure with 5,000 resamples.

Table 6. Direct Effect Hypothesis Testing

Hypothesis	Relationship	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	P Values	Decision
H1	Flexible Work Arrangement → Work Engagement	0.333	0.352	0.076	4.365	0.000	Supported
H2	Flexible Work Arrangement → Psychological Well-Being	0.321	0.338	0.073	4.374	0.000	Supported
H3	Flexible Work Arrangement → Employee Performance	0.219	0.219	0.094	2.344	0.019	Supported
H4	Work Engagement → Employee Performance	0.285	0.296	0.131	2.173	0.030	Supported
H5	Psychological Well-Being → Employee Performance	0.217	0.218	0.110	1.981	0.048	Supported

The findings demonstrate that Flexible Work Arrangement significantly improves Work Engagement ($\beta = 0.333$), Psychological Well-Being ($\beta = 0.321$), and Employee Performance ($\beta = 0.219$). Moreover, both Work Engagement ($\beta = 0.285$) and Psychological Well-Being ($\beta = 0.217$) positively influence Employee Performance. Therefore, all direct hypotheses proposed in this study are supported. These findings suggest that organizations implementing flexible work practices create a supportive working environment that enhances employees' motivation and psychological health, ultimately contributing to higher performance.

3.5. Mediation Analysis

The mediating effects of Work Engagement and Psychological Well-Being were examined using the bootstrapping procedure.

Table 7. Specific Indirect Effect (Mediation Analysis)

Hypothesis	Indirect Relationship	Original Sample (O)	Sample Mean (M)	Standard Deviation	T Statistics	P Values	Decision
H6	Flexible Work Arrangement → Work Engagement → Employee Performance	0.095	0.107	0.057	1.652	0.099	Not Supported
H7	Flexible Work Arrangement → Psychological Well-Being → Employee Performance	0.070	0.074	0.042	1.657	0.098	Not Supported

The analysis revealed that the indirect effect of Flexible Work Arrangement on Employee Performance through Work Engagement was not statistically significant ($p > 0.05$). Likewise, the indirect effect through Psychological Well-Being was also not statistically significant ($p > 0.05$). Although Flexible Work Arrangement significantly influenced both mediators and both mediators significantly affected Employee Performance, neither mediation pathway independently demonstrated sufficient strength to establish significant mediation. These findings indicate that Flexible Work Arrangement primarily influences Employee Performance through its direct effect rather than through the individual mediating mechanisms of Work Engagement or Psychological Well-Being.

3.6. Discussion

The empirical findings provide substantial evidence that Flexible Work Arrangement is an important organizational resource for Generation Z employees in Indonesia. The positive relationship between Flexible Work Arrangement and Work Engagement supports the Job Demands–Resources (JD-R) Theory proposed by Bakker & Demerouti (2017), which argues that organizational resources stimulate employees' motivation and dedication. Employees who experience greater flexibility perceive higher autonomy and control over their work, thereby increasing their enthusiasm and involvement in organizational activities.

The significant influence of Flexible Work Arrangement on Psychological Well-Being further supports the Self-Determination Theory (Ryan & Deci, 2020), which emphasizes that autonomy represents one of the fundamental psychological needs underlying individual well-being. Flexible work policies enable employees to balance professional and personal responsibilities more effectively, thereby improving their psychological functioning.

The results also reveal that both Work Engagement and Psychological Well-Being significantly improve Employee Performance. These findings are consistent with previous studies by Schaufeli et al. (2006) ; Bakker & Demerouti (2017), which conclude that engaged employees are generally more productive, proactive, and committed to achieving organizational goals. Similarly, employees with stronger psychological well-being demonstrate greater resilience, creativity, and adaptability, enabling them to perform their tasks more effectively.

Interestingly, although both mediating variables exhibited significant direct effects on Employee Performance, neither Work Engagement nor Psychological Well-Being individually mediated the relationship between Flexible Work Arrangement and Employee Performance. This finding suggests that Flexible Work Arrangement exerts a relatively stronger direct influence on performance than through these psychological mechanisms. One possible explanation is that Generation Z employees value work flexibility as an intrinsic organizational benefit that directly enhances productivity without necessarily relying on increased engagement or psychological well-being as intermediary processes.

From a managerial perspective, these findings imply that organizations should continue investing in flexible work policies because they directly contribute to employee performance while simultaneously enhancing employee engagement and psychological well-being. Organizations should also complement Flexible Work Arrangements with leadership support, digital collaboration tools, employee development programs, and mental health initiatives to maximize their effectiveness.

Overall, this study extends the literature on Flexible Work Arrangements by providing empirical evidence from Indonesia and demonstrating that flexible working practices represent an effective human resource strategy for improving Generation Z employee performance. These findings contribute to the growing body of knowledge regarding modern workforce management in the era of digital transformation while providing practical guidance for managers seeking to develop more adaptive and employee-centered workplace policies.

4. CONCLUSION

This study aimed to examine the role of Flexible Work Arrangement (FWA) in improving the Employee Performance of Generation Z employees in Indonesia, while investigating the mediating roles of Work Engagement and Psychological Well-Being. Drawing upon the Job Demands–Resources (JD-R) Theory and Self-Determination Theory (SDT), this study proposed that organizational flexibility functions as an important job resource that enhances employees' psychological conditions and ultimately contributes to better work performance.

The empirical findings provide several important conclusions. First, Flexible Work Arrangement has a significant positive effect on Work Engagement, indicating that greater flexibility in work schedules, work locations, and work autonomy encourages Generation Z employees to become more enthusiastic, dedicated, and absorbed in their work. Second, Flexible Work Arrangement significantly enhances Psychological Well-Being, suggesting that flexible working practices improve employees' perceptions of autonomy, personal growth, and work-life balance. Third, Flexible Work Arrangement directly improves Employee Performance, demonstrating that organizational flexibility itself represents an effective human resource strategy for increasing employee productivity and effectiveness. Furthermore, both Work Engagement and Psychological Well-Being significantly contribute to Employee Performance, confirming that motivated and psychologically healthy employees tend to achieve higher work outcomes.

However, the mediation analysis reveals that Work Engagement and Psychological Well-Being do not individually mediate the relationship between Flexible Work Arrangement and Employee Performance. Although Flexible Work Arrangement significantly influences both mediators and both mediators significantly affect Employee Performance, the indirect effects through each mediator were statistically insignificant. These findings suggest that Flexible Work Arrangement exerts a stronger direct influence on employee performance than through the individual psychological mechanisms examined in this study. Nevertheless, the significant total indirect effect indicates that the combined psychological pathways still contribute to explaining how flexible working practices influence employee performance.

The findings make several important theoretical contributions. First, this study extends the application of the Job Demands–Resources Theory by confirming that Flexible Work Arrangement functions as a valuable organizational resource that directly enhances employee performance while simultaneously strengthening employees' work engagement and psychological well-being. Second, this study enriches the literature on Generation Z workforce management, an area that remains relatively underexplored in emerging economies, particularly Indonesia. Third, the findings provide additional empirical evidence regarding the effectiveness of Flexible Work Arrangements within the context of digital transformation and modern human resource management.

From a practical perspective, the results suggest that organizations should continue implementing Flexible Work Arrangements as a strategic human resource policy to improve employee performance and organizational sustainability. Managers should not only provide flexibility regarding work schedules and locations but also complement these practices with supportive leadership, effective digital collaboration systems, employee development opportunities, and workplace well-being programs. Such integrated human resource strategies are expected to maximize employee motivation, psychological health, and overall organizational performance, particularly among Generation Z employees who highly value autonomy and work-life balance.

Despite these contributions, several limitations should be acknowledged. First, this study employed a cross-sectional research design, limiting the ability to establish causal relationships over time. Second, the use of self-reported questionnaires may introduce common method bias, although procedural remedies were implemented during data collection. Third, the sample consisted of 136 Generation Z employees in Indonesia, which may limit the generalizability of the findings to other generations, industries, or national contexts. Therefore, future research is encouraged to employ longitudinal research designs, larger and more diverse samples, and comparative analyses across different generations or countries. In addition, future studies may incorporate other relevant variables, such as organizational support, transformational leadership, organizational commitment, digital competency, job satisfaction, or organizational culture, to provide a more comprehensive understanding of employee performance in flexible working environments.

In conclusion, this study demonstrates that Flexible Work Arrangement represents a strategic organizational resource capable of enhancing the performance of Generation Z employees in Indonesia. As organizations continue adapting to digital transformation and evolving workforce expectations, flexible working practices should no longer be viewed merely as operational policies but rather as long-term strategic investments in human capital. By integrating flexibility with supportive organizational environments and employee well-being initiatives, organizations can foster a more engaged, resilient, and high-performing workforce, thereby strengthening their competitiveness in the rapidly changing digital economy.

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