

# COMPENSATION AS A MEDIATING VARIABLE BETWEEN WORK-LIFE BALANCE AND EMPLOYEE LOYALTY ON JOB SATISFACTION OF GENERATION Z IN THE MANUFACTURING INDUSTRY

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**Abstract:** *Changes in the dynamics of work in the manufacturing industry require companies to be able to maintain employee job satisfaction, especially among Generation Z, who evaluate jobs not only based on salary, but also on work-life balance and employee loyalty to the company. The purpose of this research is to examine how employee loyalty and work-life balance affect job satisfaction, as well as how remuneration functions as a mediating factor. 150 members of Generation Z who worked in Gresik's industrial sector participated in the research, which used an explanatory quantitative methodology. An online survey was used to gather data, and PLS-SEM using bootstrapping techniques was used to evaluate the results and determine if the relationships between the variables were significant. The findings indicate that although employee loyalty has no discernible direct impact on workplace happiness, work-life balance does. The impact of loyalty and work-life balance on job satisfaction was shown to be mediated by compensation, which also had a substantial effect. This study confirms that compensation is a key factor that strengthens the job satisfaction of Generation Z in the manufacturing industry.*

**Keywords:** *Compensation, Employee loyalty, Generation Z, Job satisfaction, Work life balance*

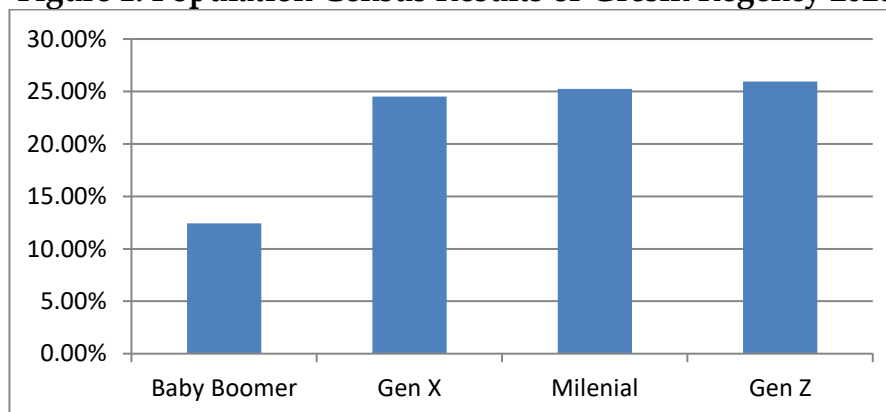
**Abstrak:** Perubahan dinamika kerja di industri manufaktur menuntut perusahaan mampu menjaga kepuasan kerja karyawan, khususnya Generasi Z yang menilai pekerjaan tidak hanya dari gaji, tetapi juga *work life balance* dan loyalitas karyawan terhadap perusahaan. Penelitian ini bertujuan menganalisis pengaruh *work life balance* dan loyalitas karyawan terhadap kepuasan kerja, serta adanya peran kompensasi sebagai variabel mediasi. Penelitian menggunakan metode kuantitatif eksplanatori dengan 150 responden Generasi Z di industri manufaktur Gresik. Data dikumpulkan melalui kuesioner online dan dianalisis menggunakan PLS-SEM dengan prosedur bootstrapping agar dapat menguji signifikansi hubungan antar variabel. Hasil menunjukkan bahwa *work life balance* memiliki pengaruh signifikan terhadap kepuasan kerja, sedangkan loyalitas karyawan tidak berpengaruh langsung secara signifikan. Kompensasi terbukti berpengaruh signifikan dan mampu memediasi pengaruh *work life balance* dan loyalitas terhadap kepuasan kerja. Penelitian ini menegaskan bahwa kompensasi menjadi faktor kunci yang memperkuat kepuasan kerja Generasi Z dalam lingkungan industri manufaktur.

**Kata Kunci:** *Generasi Z, Kepuasan kerja, Kompensasi, Loyalitas karyawan, Work life balance*

## INTRODUCTION

The dynamics of the world of work have undergone major changes in the current era of globalization. Gresik is often referred to as an industrial city because it has become one of the largest industrial production centers in East Java. Numerous large national and multinational manufacturing companies operate in this region, particularly in the cement, fertilizer, chemical, steel, and food and beverage sectors. These industries face challenges in maintaining efficiency and employee job satisfaction. In this context, organizations encounter new challenges in managing human resources, particularly concerning job satisfaction and employee loyalty. Generation Z now constitutes the majority of the population, and the annual growth of this labor force indicates that Gen Z members are beginning to enter the job market. The data below presents the results of the population census categorized by generation, updated every ten years.

**Figure 1. Population Census Results of Gresik Regency 2020**



Source: Gresik Central Bureau of Statistics (2020)

Gen Z is the generation following millennials. They were born between 1997 and 2012, currently aged around 13 to 28 years old, and are now entering the workforce. According to the 2020 Population Census, Generation Z is the largest generational group, comprising 25.96 percent (339 thousand people). As Generation Z enters the world of work, managers and companies must prepare and learn how to effectively manage these young employees who possess different characteristics and needs compared to previous generations. Research suggests that the balance between personal and professional life—commonly known as an effort to maintain harmony between work and personal responsibilities—is highly valued by Generation Z.

According to Juwita & Khalimah (2021), work-life balance refers to the extent to which an individual feels satisfied in fulfilling various responsibilities in life, both inside and outside the workplace. From a work-life balance perspective, companies can provide opportunities for employees to spend time with family, friends, and themselves, as well as engage in hobbies and enjoyable activities while maintaining a balance between work and personal life. In the manufacturing industry in Gresik, which uses shift systems, overtime, and has high production targets, employees often struggle to maintain a healthy work-life balance. Therefore, work-life balance has become an increasingly important topic. A global survey conducted by Benítez-Márquez et al. (2022) shows that Generation Z prioritizes organizational support, employee expectations, and personal well-being. Jobs offering flexibility, a positive

work environment, and career development opportunities are frequently chosen by Gen Z. As a result, many employees experience challenges in maintaining work-life balance, which can trigger burnout, stress, and decreased employee loyalty.

However, a survey conducted by GoodStats (2024) revealed that 40% of Gen Z workers in Indonesia plan to change jobs within the next one to two years, indicating that their level of loyalty is relatively low.

**Table 1. Turnover Intention Rates Across Generations in Indonesia**

Gen Z	68%
Milenial	35%
Gen X	21-24%
Baby Boomer	15%

Source: Studies and Journals 2019–2025

The findings above show that Generation Z has the highest turnover rate at 68%, indicating that many young Indonesians tend to switch jobs easily if the work does not meet their expectations. Employees are unlikely to seek opportunities elsewhere if they feel satisfied with their jobs because they feel valued and connected (Anggapradja, 2024). When loyalty is properly managed, companies can grow, as satisfied employees are productive employees (Kasmir, 2019). Wyman (2023) found that Generation Z tends to resign more easily from the manufacturing industry. Therefore, manufacturing industries in Gresik need appropriate workforce management strategies to maintain the motivation and morale of Gen Z employees. If the situation continues, it may lead to serious issues such as decreased job satisfaction and declining employee performance.

Job satisfaction, according to Edy Sutrisno (2019), refers to how employees perceive their work, including the work environment, relationships and cooperation with colleagues, compensation received, and both physical and mental conditions. For Generation Z, job satisfaction is not determined solely by salary but also by opportunities for development, recognition of achievements, and work-life balance. In the Gresik manufacturing industry, employees who feel dissatisfied with their jobs often choose to switch positions and seek roles that align more closely with their expectations. As a result, performance decreases, turnover increases, and this negatively affects the sustainability and effectiveness of the company.

In addition, compensation is also a crucial factor, as Generation Z is known for having a strong orientation toward fair, transparent, and performance-based compensation. Hidayat & Susanto (2022) state that compensation can have a positive impact because when compensation aligns with their efforts, employees will feel more valued. Compensation plays an important role in this study as a tangible way to reward employee efforts, felt directly by them. For Generation Z, compensation includes not only base salary but also incentives, bonuses, benefits, and other advantages that support their work. According to a PwC survey conducted in 2022, 65% of Indonesian Gen Z workers believe that fair wages play a key role in determining job happiness. This means that compensation becomes the ultimate

determinant of whether employees feel satisfied, even when they already experience work-life balance and high loyalty.

Previous studies have shown that work-life balance, employee loyalty, and compensation influence job satisfaction. Research findings (Juwita & Khalima, 2021; Mahardika et al., 2022; Pasaribu et al., 2025) indicate that job satisfaction is positively affected by balance between work and personal life. However, Nadhilah, Setiawan, and Susilowati (2024) argue that work-life balance does not have a significant impact on job satisfaction. Putra et al. (2025) found that salary can strengthen the relationship between performance and work-life balance by enhancing job satisfaction among Gen Z. Other studies suggest that factors beyond compensation, such as employee engagement (Audillah et al., 2025), influence the relationship between work-life balance and job satisfaction. Moreover, earlier findings show inconsistencies, especially regarding the effects of work-life balance and the mediating role of compensation.

This study focuses on Generation Z working in the manufacturing industry in Gresik Regency, which differs from most Gen Z studies that examine service-sector populations or cross-sector analyses (Benítez-Márquez et al., 2022). The relationships among work-life balance, compensation, loyalty, and job satisfaction may differ in this context due to shift work and overtime conditions. Furthermore, the main theoretical contribution of this study lies in positioning compensation as a mediator linking the influence of employee loyalty and work-life balance on job satisfaction. Typically, job satisfaction functions as a mediator or compensation serves as a direct predictor.

Thus, by using compensation as a mediating variable, this study aims to examine the effects of work-life balance and employee loyalty on job satisfaction. The underlying idea is that employees will be significantly more satisfied with their jobs when they have a healthy work-life balance and strong loyalty to the company. The study also seeks to clarify the extent to which compensation acts as a mediator between work-life balance, employee loyalty, and job satisfaction.

## LITERATURE REVIEW

### **Social Exchange Theory**

Social Exchange Theory, pioneered by Peter Blau (1964), is a fundamental theory that provides essential explanations regarding reciprocal relationships between individuals and organizations. Blau emphasized that social relationships not only involve material exchanges but also social exchanges such as trust, respect, and loyalty. According to Blau (1964), when employees feel that the organization provides support, recognition, and fairness, they will feel a moral obligation to reciprocate through positive attitudes such as loyalty, commitment, and productive work behavior. This loyalty can then foster job satisfaction, as individuals perceive their social relationship with the organization to be based on trust and mutual appreciation.

### **Human Resource Management**

Management is an art or method used to carry out various stages, such as planning, organizing, implementing, and monitoring, in order to evaluate and achieve predetermined goals (Rizqi, 2019). Human Resource Management (HRM), according to Warongan et al. (2022), is a method used to manage the workforce effectively and efficiently to maximize their contribution to achieving organizational goals.

Meanwhile, Cahyadi et al. (2023) emphasize that HRM is an approach to managing and organizing the workforce within a company, starting from recruitment to the end of employment.

### **Work-Life Balance**

Widada and Aruman (2020:112) define work-life balance as an individual's effort to manage their job without sacrificing personal obligations, family relationships, spiritual needs, or social life. According to Juwita and Khalimah (2021), work-life balance refers to the extent to which individuals feel satisfied in fulfilling various responsibilities in their personal and professional lives. McDonald et al. (2005), as cited in Rohmah (2019), identify three major factors influencing work-life balance: (1) time balance, (2) involvement balance, and (3) satisfaction balance.

### **Employee Loyalty**

Luthans (2021) states that loyalty can be defined as an employee's willingness to take initiative or actions to advance the company without doing so for personal gain. S. Manik, as cited in Rachmawati (2022), describes employee loyalty as a form of readiness to remain committed, defend, and maintain the company's reputation in the workplace. Loyal employees tend to protect the organization's reputation and deliver their best performance, both inside and outside the workplace (Anifah, 2022). According to Luthans (2021), four indicators of employee loyalty include: (1) appreciation, (2) turnover rate, (3) loyal employee attitudes, and (4) dedication.

### **Job Satisfaction**

According to a study conducted by Afandi (2021), job satisfaction describes the level of effectiveness or emotional response individuals feel toward various aspects of their job, and how employees feel pleased or displeased in performing their work. Individuals who are satisfied with their job tend to be more committed to their work (Citra & Fahmi, 2019). Handoko (2020) adds that employees' perceptions of their work, whether positive or negative, determine their level of job satisfaction. Mathis and Jackson, as cited in Maria (2021), identify several indicators of job satisfaction, including: (1) the job itself, (2) supervision, (3) coworkers, (4) compensation, and (5) development opportunities.

### **Compensation**

According to Marwansyah, as cited in Widyaningrum (2020), compensation is the act of providing employees with appropriate financial and non-financial incentives as recognition of their roles and contributions in achieving organizational goals. Khalbina et al. (2022) define compensation as a company's method of acknowledging or rewarding employees for their efforts and ideas. Simamora, as cited in Widyaningrum (2020), states that compensation can be measured using several indicators, including: (1) wages and salaries, (2) incentives, and (3) benefits.

### **Relationship Between Work-Life Balance and Job Satisfaction**

According to Achmad and Putra (2022), work-life balance and job satisfaction have a positive and significant relationship. Job satisfaction tends to increase when employees experience a better balance between work and personal life. Generation Z employees particularly value work-life balance due to their appreciation for flexibility, mental health, and personal time. When employees have a good balance supported by fair scheduling and flexible leave policies, their psychological and emotional

conditions become more stable, leading Generation Z employees to feel satisfied and motivated at work. Conversely, when work-life balance is disrupted – such as through long working hours or high job pressure – job satisfaction decreases due to stress, fatigue, or psychological discomfort.

**H1:** Work-life balance (X1) affects Employee Job Satisfaction (Y)

#### **Relationship Between Employee Loyalty and Job Satisfaction**

Employee loyalty refers to the level of dedication and commitment employees show toward the organization. Loyal employees typically form strong bonds with the company, including dedication to organizational goals and willingness to make sacrifices for the benefit of the organization. These positive feelings enhance job satisfaction because employees feel valued, needed, and provided with clear career prospects. When the company meets employee expectations in terms of compensation or career development, employees feel fairly treated and appreciated. This fosters a sense of belonging and strengthens commitment, resulting in increased loyalty and job satisfaction. Conversely, dissatisfaction caused by heavy workloads or inadequate compensation can reduce loyalty and potentially increase turnover rates.

**H2:** Employee Loyalty (X2) affects Employee Job Satisfaction (Y)

#### **Relationship Between Compensation and Job Satisfaction**

Generation Z employees in manufacturing frequently emphasize fairness and transparency in compensation, as this directly relates to their well-being and work motivation. According to equity theory, employees feel satisfied when compensation is perceived as fair and proportional to their efforts and contributions. However, when wages are perceived as unfair or disproportionate to their workload, dissatisfaction arises and may reduce motivation. For Generation Z, compensation is not limited to salary alone; they also value meaningful work and appreciation. When these expectations are fulfilled, job satisfaction significantly increases.

**H3:** Compensation (Z) affects Job Satisfaction (Y)

#### **Relationship Between Work-Life Balance and Compensation**

A good work-life balance plays an important role in shaping employees' perceptions of compensation. When companies provide support for work-life balance – such as leave benefits, flexible working hours, or health facilities – employees perceive these as valuable forms of compensation. Greenhaus and Beutell (1985) argue that good work-life balance enables individuals to manage work and family roles harmoniously, reducing conflict and enhancing psychological well-being. Thus, implementing work-life balance not only improves employee quality of life but also strengthens positive perceptions of compensation.

**H4:** Work-life balance (X1) affects Compensation (Z)

#### **Relationship Between Employee Loyalty and Compensation**

Highly loyal employees typically believe that the organization will provide compensation proportional to their contributions. Likewise, companies tend to reward dedicated and loyal employees with greater incentives or recognition. Loyalty also influences how employees perceive the compensation they receive. Employees who feel valued – both financially and emotionally – tend to remain loyal to the organization. However, when compensation is perceived as insufficient or unfair, Generation Z employees tend to seek more attractive opportunities elsewhere, potentially leading to dissatisfaction and reduced work performance.

**H5:** Employee Loyalty (X2) affects Compensation (Z)

**Relationship Between Work-Life Balance and Job Satisfaction Through Compensation**

Healthy work-life balance indicates that the company cares about employees' well-being. Non-financial incentives such as health benefits, paid leave, or flexible schedules are often seen as forms of appreciation. Employees tend to feel more satisfied when compensation supports their work-life balance.

Compensation may serve as a bridge linking work-life balance to job satisfaction. Employees with healthy work-life balance tend to be more productive, give better performance, and ultimately receive fair compensation, which further increases job satisfaction.

**H6:** Work-life balance (X1) affects Job Satisfaction (Y) through the Mediating Variable Compensation (Z)

**Relationship Between Employee Loyalty and Job Satisfaction Through Compensation**

Loyal employees generally expect compensation that reflects their dedication. When compensation meets these expectations, loyalty strengthens and job satisfaction improves. Conversely, when loyalty is not matched with fair compensation, job satisfaction may decline due to perceived injustice.

In the context of Generation Z in manufacturing, loyalty is often challenged by high turnover rates. Therefore, fair compensation becomes essential to maintain loyalty and enhance job satisfaction.

**H7:** Employee Loyalty (X2) affects Job Satisfaction (Y) through the Mediating Variable Compensation (Z)

**RESEARCH METHOD**

This study employs a quantitative approach with an explanatory research design, aimed at explaining the causal relationships among work-life balance, employee loyalty, compensation, and job satisfaction among Generation Z employees in the manufacturing industry in Gresik. The study uses a quantitative method, which according to Hardani (2020), is characterized by a more systematic, structured, and clearly defined process from the beginning to the end of the research.

This research was conducted on employees working in manufacturing companies operating in the Gresik region, as the area serves as an industrial hub and employs a large number of Generation Z workers. The population consists of Generation Z employees (born between 1997 and 2012) employed in the manufacturing sector in Gresik Regency. Determination of the sample size refers to Hair et al. (2014), which states that for studies involving 15 indicators, a minimum sample size of  $15 \times 10 = 150$  respondents is required to ensure adequate analytical results. Therefore, this study uses a sample of 150 respondents.

The sampling technique applied is non-probability sampling with a purposive sampling approach, based on the inclusion criteria of working in the manufacturing sector and having a minimum tenure of six months. Data collection was conducted using a Google Form, which began with an explanation of the research purpose, confidentiality assurance, and an informed consent statement. Respondents could proceed to the questionnaire only upon voluntarily agreeing to participate.

The research instrument was developed by adapting indicators from work-life balance (McDonald et al., 2005), employee loyalty (Luthans, 2021), compensation (Simamora in Widyaningrum, 2020), and job satisfaction (Mathis & Jackson in Maria, 2021). The questionnaire was distributed to respondents through a provided link. The collected data were then processed and analyzed. Primary data were obtained through a questionnaire using a 5-point Likert scale. Additionally, secondary data were utilized from publications such as the Central Statistics Agency (BPS).

Data analysis in this study employs the Partial Least Square Structural Equation Modeling (PLS-SEM) method using SmartPLS software, as it is capable of testing simultaneous relationships between variables and is suitable for relatively small sample sizes. This study includes an evaluation of the inner model to examine relationships among variables and test hypotheses using the bootstrapping technique, as well as an evaluation of the outer model to assess the validity and reliability of indicators. A p-value of less than 0.05 and a t-statistic greater than 1.96 are required for a hypothesis to be accepted.

## RESULTS AND DISCUSSION

### Measurement Model (Outer Model)

#### Convergent Validity

The strength of the correlation between the tested construct and its indicators is shown by the outer loading values. The higher the outer loading value, the better an indicator reflects the latent variable. Generally, an indicator is considered valid if its outer loading exceeds 0.70 (Hair et al., 2019). This test is typically evaluated based on factor loading values, which should be greater than 0.70, as well as the Average Variance Extracted (AVE) value, which must exceed 0.50

**Table 2. Outer Loading Values**

	<b>Job Satisfaction (Y)</b>	<b>Compensation (Z)</b>	<b>Employee Loyalty (X2)</b>	<b>Work Life Balance (X1)</b>
WLB1.1				0.746
WLB1.2				0.748
WLB2.1				0.729
WLB2.2				0.757
WLB3.1				0.718
WLB3.2				0.779
LK1			0.725	
LK2			0.785	
LK3			0.766	
LK4			0.742	
K1.1		0.725		
K1.2		0.733		
K2.1		0.730		
K3.1		0.793		
K3.2		0.824		
KK1	0.730			
KK2	0.790			
KK3	0.747			
KK4	0.757			



KK5 0.735

Source: Processed Research Data, 2025

Based on the results of the measurement model (outer model) testing, all indicators in the Work-Life Balance (X1), Employee Loyalty (X2), Compensation (Z), and Job Satisfaction (Y) variables have outer loading values above 0.70. This indicates that each indicator possesses adequate convergent validity and is suitable for use in the research model.

**Tabel 3. Average Variance Extracted (AVE)**

<i>Average Variance Extracted (AVE)</i>	
<i>Work Life Balance (X1)</i>	0.557
<i>Employee Loyalty (X2)</i>	0.570
<i>Compensation (Z)</i>	0.581
<i>Job Satisfaction (Y)</i>	0.566

Source: Processed Data, 2025

Based on the table above, all four constructs in this study meet the criteria for convergent validity. Work-life balance (X1) has an AVE value of 0.557, employee loyalty (X2) scores 0.570, compensation (Z) has a value of 0.581, and job satisfaction (Y) obtains a value of 0.566.

**Discriminant Validity**

Discriminant validity is assessed by examining the cross-loading values of each indicator on the construct it is intended to measure. This validity test is conducted by comparing the square root of the AVE value with the correlations among constructs. The higher the square root of the AVE, the better the discriminant validity.

**Table 4. Discriminant Validity (Cross Loading)**

	<i>Work Life Balance</i>	<i>Employee Loyalty</i>	<i>Compensation</i>	<i>Job Satisfaction</i>
<b>WLB1.1</b>	<b>0.746</b>	0.355	0.445	0.441
<b>WLB1.2</b>	<b>0.748</b>	0.267	0.342	0.320
<b>WLB2.1</b>	<b>0.729</b>	0.323	0.404	0.401
<b>WLB2.2</b>	<b>0.757</b>	0.283	0.361	0.434
<b>WLB3.1</b>	<b>0.718</b>	0.355	0.319	0.350
<b>WLB3.2</b>	<b>0.779</b>	0.330	0.387	0.459
<b>LK1</b>	0.336	<b>0.725</b>	0.524	0.459
<b>LK2</b>	0.315	<b>0.785</b>	0.567	0.477
<b>LK3</b>	0.346	<b>0.766</b>	0.517	0.524
<b>LK4</b>	0.290	<b>0.742</b>	0.411	0.360
<b>K1.1</b>	0.351	0.457	<b>0.725</b>	0.499
<b>K1.2</b>	0.393	0.503	<b>0.733</b>	0.514
<b>K2.1</b>	0.402	0.478	<b>0.730</b>	0.619
<b>K3.1</b>	0.369	0.585	<b>0.793</b>	0.567

<b>K3.2</b>	0.421	0.545	<b>0.824</b>	0.615
<b>KK1</b>	0.461	0.288	0.474	<b>0.730</b>
<b>KK2</b>	0.488	0.457	0.579	<b>0.790</b>
<b>KK3</b>	0.310	0.425	0.506	<b>0.747</b>
<b>KK4</b>	0.462	0.631	0.651	<b>0.757</b>
<b>KK5</b>	0.299	0.439	0.546	<b>0.735</b>

Source: Processed Data, 2025

With values above 0.50, the table shows that each indicator has a higher loading on its associated latent variable than on other variables. These findings therefore confirm that all measurement items meet the requirements for discriminant validity.

### Construct Reliability

Reliability testing is conducted by examining the Composite Reliability (CR) and Cronbach's Alpha values. Both values should ideally exceed 0.70 to indicate adequate reliability. Composite reliability values ranging from 0.6 to 0.7 are considered acceptable for exploratory research based on Ghazali and Latan (2015).

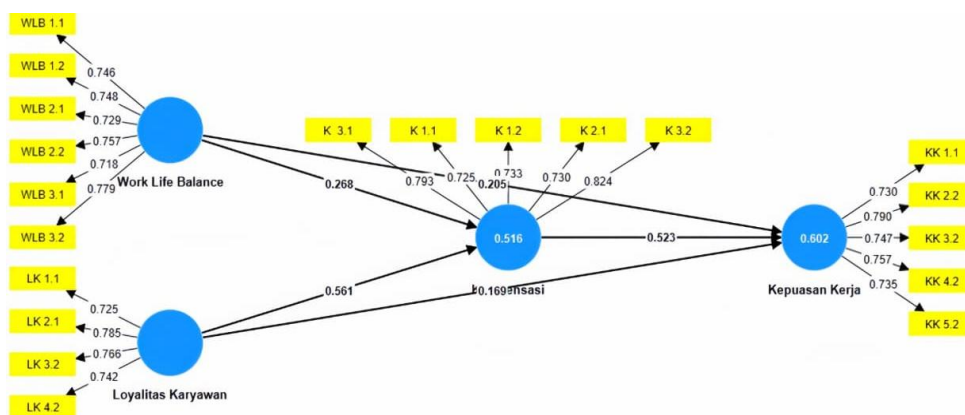
**Table 5. Composite Reliability dan Cronbach's Alpha**

	Cronbach's alpha	Composite reliability (rho_a)
Work Life Balance	0.841	0.817
Employee Loyalty	0.750	0.754
Compensation	0.819	0.823
Job Satisfaction	0.810	0.817

Source: Processed Data, 2025

Based on the table above, the composite reliability values for each construct – work-life balance (0.817), employee loyalty (0.754), compensation (0.823), and job satisfaction (0.817) – indicate strong reliability. The Cronbach's Alpha values also confirm reliability: work-life balance (0.841), employee loyalty (0.750), compensation (0.819), and job satisfaction (0.810). Thus, all constructs in this study are consistent and reliable.

**Figure 2. Outer Model Research Framework**



Source: SmartPLS 4.0

## Structural Model (Inner Model)

### R-Square

According to Ghazali and Latan (2015), the R-square ( $R^2$ ) value in PLS describes the degree to which independent variables influence the dependent variable.

**Table 6. Path Coefficient (R-Square)**

	R-square
Compensation (Z)	0.516
Job Satisfaction (Y)	0.602

Source: Processed Data, 2025

As shown in the table above, the R-square values indicate the extent to which variables in the model explain compensation and job satisfaction. Compensation, as a mediating variable, has an R-square value of 0.516, meaning that the predictors in this study explain 51.6% of its variance, while the remaining 48.4% is explained by external factors. Meanwhile, job satisfaction has an R-square value of 0.602, indicating that 60.2% of its variance is explained by the variables in the model.

### Q-Square

Q-square is used to assess whether the model and its parameter estimates possess predictive relevance. A Q-square value greater than zero indicates that the model has good predictive capability.

**Table 7. Stone Geisser Q-square test (Predictive Relevance)**

	Q-Square
Job Satisfaction	0,807
Compensation	0,807

Source: Processed Data, 2025

Based on the results, the  $Q^2$  (predictive relevance) value is 0.807. This indicates that the model explains 80.7% of the data variance, while the remaining 19.3% is influenced by factors not included in the model, either from compensation or job satisfaction. Thus, the model meets the criteria for good predictive relevance and demonstrates a satisfactory goodness of fit.

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

The effect size ( $f^2$ ) metric is used to measure the magnitude of the contribution of each independent variable to the dependent variable. This test helps determine whether a variable has a small, medium, or large effect within the model.

**Tabel 8. Effect Size**

	Kepuasan Kerja	Kompensasi
Work Life Balance	0.077	0.122
Loyalitas Karyawan	0.039	0.531
Kompensasi	0.333	
Kepuasan Kerja		

Sumber: Data Diolah, 2025

Three categories are used to evaluate the effect size ( $f^2$ ), where a value of 0.02 indicates a small effect, 0.15 indicates a medium effect, and 0.35 indicates a large effect (Hair et al., 2017). The findings show that work-life balance contributes 0.077 and employee loyalty contributes 0.039 to the job satisfaction variable, both of which are categorized as small effects according to Hair et al. (2017). Compensation, on the other

hand, has a substantial effect size of 0.333, indicating that it is the most influential and significant factor affecting the increase in employee job satisfaction. The effect size of work-life balance on the compensation variable is 0.122, which falls into the small-to-medium category. Employee loyalty, however, shows a value of 0.531, which is categorized as large and demonstrates that it has a significant impact on increasing compensation.

### Hypothesis Testing

The path coefficient values, which indicate the significance level of the relationship between two variables, were analyzed to test the hypotheses. The t-statistics and p-values were used to assess the path coefficients. A p-value below 0.05 and a t-statistic above 1.96 are required to meet the criteria for statistical significance.

**Tabel 9. Path Coefficient**

	Path Coefficient (O)	T-Statistic	P-value
Work Life Balance -> Job Satisfaction	0.205	2.546	0.011
Employee Loyalty -> Job Satisfaction	0.169	1.818	0.070
Compensation -> Job Satisfaction	0.523	6.133	0.000
Work Life Balance -> Compensation	0.268	3.098	0.002
Employee Loyalty -> Compensation	0.561	6.134	0.000

*Source: Processed Data, 2025*

Based on the table above, the path coefficient values shown through the t-statistics and p-values explain the direct relationships between the exogenous and endogenous variables.

**H1:** With a path coefficient of 0.205, a t-statistic of  $2.546 > 1.96$ , and a p-value of  $0.011 < 0.05$ , work-life balance has a positive and significant effect on job satisfaction, indicating that H1 is accepted. The findings suggest that employees' job satisfaction increases along with their perception of work-life balance.

**H2:** With a p-value of  $0.070 > 0.05$ , a t-statistic of  $1.818 < 1.96$ , and a path coefficient of 0.169, employee loyalty has a positive but insignificant effect on job satisfaction. Based on these results, employee loyalty has not yet become a strong direct factor in enhancing job satisfaction among employees. Thus, H2 is rejected.

**H3:** With a path coefficient of 0.523, a t-statistic of  $6.133 > 1.96$ , and a p-value of  $0.000 < 0.05$ , compensation has a positive and significant effect on job satisfaction, supporting the acceptance of H3. This indicates that improvements in the company's compensation structure will positively impact employee job satisfaction.

**H4:** The path coefficient of 0.268, a t-statistic of  $3.098 > 1.96$ , and a p-value of  $0.002 < 0.05$  show that work-life balance has a positive and significant effect on compensation. These results support the acceptance of H4. This means employees are likely to receive better compensation when the organization provides a well-balanced work-life environment.

**H5:** With a p-value of  $0.000 < 0.05$ , a t-statistic of  $6.134 > 1.96$ , and a path coefficient of 0.561, employee loyalty has a significant and positive effect on compensation. Thus, H5 is accepted, indicating that the more loyal the employees are, the greater the likelihood that the company will offer competitive compensation.

**Tabel 10. Hasil Uji Indirect Effect**

	Path Coefficients	T-Statistic	P-value
Work Life Balance - > Compensation -> Job Satisfaction	0.140	2.776	0.006
Employee Loyalty - > Compensation -> Job Satisfaction	0.293	4.176	0.000

*Source: Processed Data, 2025*

Based on the table above, the testing was conducted by examining the path coefficient, t-statistic, and p-value in the indirect effect table. The results are as follows:  
**H6:** Work-life balance affects job satisfaction through compensation with a path coefficient of 0.140, a t-statistic of  $2.776 > 1.96$ , and a p-value of  $0.006 < 0.05$ , indicating that H6 is accepted. Compensation significantly mediates the influence of work-life balance on job satisfaction.

**H7:** Employee loyalty affects job satisfaction through compensation with a path coefficient of 0.293, a t-statistic of  $4.176 > 1.96$ , and a p-value of  $0.000 < 0.05$ , indicating that H7 is accepted. Compensation significantly mediates the effect of employee loyalty on job satisfaction.

## Discussion

### The Influence of Work-Life Balance on Job Satisfaction

This study finds that work-life balance (WLB) significantly increases job satisfaction. These results support the idea that employees are more satisfied with their jobs when they perceive a healthy work-life balance. They feel that their profession not only improves their income but also enhances their overall quality of life. Work-life balance allows employees to manage their time more effectively, reduce stress levels, and improve their mental and emotional well-being—all of which contribute to higher job satisfaction. According to Benítez-Márquez et al. (2022), Generation Z places strong emphasis on flexibility, which explains the significant effect found in this study. Work-life balance directly influences the emotional state and workplace comfort of Generation Z, whose top priorities include mental health and daily quality of life. These findings are also consistent with Putri (2024), who states that work-life balance has a positive effect on employee job satisfaction.

### The Influence of Employee Loyalty on Job Satisfaction

The study shows that employee loyalty has a positive but insignificant effect on job satisfaction. This indicates that although employees may feel loyal to their organization, such loyalty does not directly increase their job satisfaction. Loyalty may be shaped by other factors such as tenure, habits, or workplace facilities, but these do not necessarily reflect true satisfaction. The insignificant finding is common, as emotional loyalty alone may not be strong enough to influence employees' perceptions of satisfaction. Thus, loyalty does not directly lead to job satisfaction.

### **The Influence of Compensation on Job Satisfaction**

Compensation has a positive and significant effect on job satisfaction. This means that when employees feel they receive adequate wages, benefits, rewards, or facilities, they feel valued, which enhances their overall work satisfaction. For Generation Z, compensation is especially important when it is perceived as fair. They evaluate their jobs based on tangible outcomes. Compensation is significant because Generation Z places wage fairness as a primary indicator of whether a job is worth keeping. This aligns with Equity Theory, which states that employees feel more satisfied and motivated when they are compensated fairly. These results are reinforced by Jefverson (2024), who found that in physically demanding and routine occupations such as manufacturing, compensation is the most tangible form of reward for employees. Thus, compensation becomes a key criterion for evaluating whether a job is satisfying.

### **The Influence of Work-Life Balance on Compensation**

Work-life balance has a positive and significant effect on compensation. This suggests that companies with good work-life balance often provide non-financial compensation such as flexible hours, leave options, or health facilities. Employees perceive these as part of their overall work rewards. Additionally, when work-life balance is well-managed, employees feel that their salary and benefits are fair because the organization demonstrates concern for their well-being. As a result, the better the work-life balance offered by the company, the higher the employees' assessment of the quality of the compensation they receive.

### **The Influence of Employee Loyalty on Compensation**

The results show that employee loyalty positively affects compensation. Loyal employees often have longer tenure, better understanding of company culture, and stable commitment, making them more likely to receive better compensation, both in terms of salary and additional benefits. Many companies offer incentives or rewards to trusted and committed employees. Loyal employees are preferred, and this trust is translated into higher salaries or better rewards. This is aligned with Liu et al. (2022), who found that long-term loyalty and commitment are often rewarded with greater incentives.

### **The Influence of Work-Life Balance on Job Satisfaction Mediated by Compensation**

The results indicate that compensation mediates the relationship between work-life balance (WLB) and job satisfaction. This means that when employees experience good work-life balance, they perceive that the pay or rewards provided by the company are appropriate and fair, leading to increased job satisfaction. Compensation acts as a mediating variable because while work-life balance brings comfort, employees feel even more satisfied when such comfort is supported by compensation that matches their workload. In other words, work-life balance provides comfort, while compensation provides appreciation. Compensation also serves as a psychological mechanism that bridges work-life balance and job satisfaction.

### **The Influence of Employee Loyalty on Job Satisfaction Mediated by Compensation**

Compensation successfully mediates the relationship between employee loyalty and job satisfaction. This means that higher loyalty leads to more positive perceptions of compensation, which in turn increases job satisfaction. Employees feel satisfied not simply because they are loyal, but because their loyalty is rewarded appropriately. When companies provide compensation that matches employees' commitment and

contributions, employees feel recognized and valued. This indicates that highly loyal employees tend to receive acknowledgment through compensation, which ultimately improves their job satisfaction. This mediation effect highlights that compensation plays a crucial role and can strengthen the connection between employee loyalty and job satisfaction.

## **CONCLUSION**

Based on the results and discussion regarding the influence of work-life balance and employee loyalty on job satisfaction with compensation as a mediating variable among Generation Z employees in the manufacturing industry, it can be concluded that work-life balance provides employees the opportunity to manage their working hours effectively and improve their mental and emotional well-being, thereby fostering job satisfaction. Employee loyalty is shown to have a positive but insignificant effect on job satisfaction. Although employees may feel loyal to the company, such loyalty does not directly increase their job satisfaction. Theoretically, these findings indicate that job satisfaction among Generation Z employees does not solely depend on the clarity, fairness, and exchange value of the compensation provided by the company, but also on emotional well-being and overall life balance. Furthermore, compensation successfully serves as a mediating variable between work-life balance and employee loyalty in influencing job satisfaction. Compensation plays a crucial role as a connecting factor in enhancing job satisfaction among Generation Z employees in the manufacturing sector.

Suggestions for future research include expanding the scope of the study by adding variables beyond work-life balance, loyalty, and compensation. Variables such as work environment, organizational culture, employee engagement, and leadership may provide a clearer picture of factors influencing Generation Z's job satisfaction. In addition, managers should develop realistic work-life balance policies tailored to a factory environment. Such policies may include workload rotation, more humane shift scheduling, and adequate rest facilities. It is also important to establish a reward system that provides formal recognition for the contributions of younger employees beyond financial compensation. Future studies should also involve a larger number of respondents with more diverse backgrounds, both across sectors and regions, to enhance the generalizability of findings. Moreover, incorporating additional moderating variables – such as motivation, social support, or length of employment – may help explain the relationships among variables more comprehensively within the job satisfaction model.

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