

Generation Z Job Preferences in the MSME Sector: An Analysis of Herzberg's Hygiene-Motivator Factors with Compensation as a Mediating Variable in Gorontalo Province

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ABSTRACT

This study aims to analyze the factors influencing young job seekers' preferences in the MSME sector of Gorontalo Province, specifically examining the role of work environment, work flexibility, and compensation. A quantitative approach with a descriptive-correlational design was employed, involving 189 Generation Z respondents aged 18-28 years who reside in Gorontalo Province and have intentions or are currently seeking employment in the MSME sector. Data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS). The results reveal that work environment and compensation significantly influence job seeker preferences, while work flexibility does not have a direct significant effect. However, work flexibility influences job preferences indirectly through compensation as a mediating variable. Of the seven hypotheses tested, six were accepted, and one was rejected. The study concludes that compensation and work environment are primary factors attracting Gen Z to the MSME sector, whereas flexibility offerings require adequate compensation to be effective. These findings reinforce Herzberg's Two-Factor Theory and provide practical implications for MSME stakeholders in developing strategies to attract young talent.

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1. INTRODUCTION

Generation Z, broadly defined as individuals born between 1997 and 2012, now constitutes an increasingly significant segment of the workforce in Indonesia and beyond. This generation has matured alongside the internet, social media, and mobile technology, shaping cognitive patterns and value systems that differ markedly from those of preceding cohorts. As digital natives, Gen Z exhibits intuitive fluency with technology, yet their workplace expectations extend beyond mere technical proficiency. Studies suggest they prioritize meaningful work, psychological well-being, and alignment between personal values and organizational culture [1]. Unlike millennials, who sought work-life balance, Gen Z tends to demand work-life integration, viewing professional and personal domains as interconnected rather than separate [2]. These distinctive characteristics warrant a dedicated investigation into how this generation evaluates employment opportunities.

The Micro, Small, and Medium Enterprise sector presents an intriguing yet understudied context for examining Gen Z employment preferences. In Indonesia, MSMEs represent the backbone of the economy, accounting for approximately 99 percent of business units and employing around 97 percent of the workforce [3]. These enterprises offer distinctive employment features that potentially appeal to younger workers: flatter hierarchies enabling direct interaction with owners, task diversity facilitating rapid skill acquisition, and informal work arrangements permitting greater flexibility. However, MSMEs simultaneously contend with resource constraints that limit their ability to offer competitive salaries, structured career paths, or formal benefits commonly associated with corporate employment. Understanding whether and how Gen Z weighs these competing considerations becomes essential for enterprises seeking to attract young talent.

Indonesia's labor market data reveals persistent challenges in matching young workers with available positions. Nationally, the open unemployment rate for individuals aged 15 to 29 reached 14.96 percent in 2024, substantially exceeding the overall

unemployment rate of 5.2 percent [4]. This disparity suggests structural mismatches between job seekers' expectations and employers' offerings. Youth unemployment carries particularly concerning implications, including delayed career initiation, skill atrophy, and potential long-term earnings penalties that justify focused policy attention.

Provincial-level examination reveals even more pronounced patterns. Gorontalo Province, located on Sulawesi Island, exemplifies the gap between MSME sector growth and youth labor force participation. According to the Gorontalo Provincial Statistics Agency, the youth open unemployment rate reached 11.94 percent in 2022, with 14,962 unemployed individuals concentrated in the 15 to 29 age bracket [4]. Simultaneously, the province's MSME sector has demonstrated robust expansion. Data from the Gorontalo City Manpower, Cooperatives, and SMEs Office indicates that micro-enterprises grew from 8,770 units in 2019 to 12,220 units by late 2024, representing approximately 40 percent growth over five years. Small enterprises numbered 3,170 units, while medium enterprises reached 395 units [3]. This juxtaposition of expanding MSME employment capacity alongside persistent youth unemployment signals a critical disjuncture requiring systematic investigation. The core research problem, therefore, lies in understanding why young job seekers in Gorontalo are not being absorbed by the very sector that is actively growing, pointing to a fundamental misalignment between what MSMEs offer and what Generation Z values and expects from employment. The province thus offers a relevant setting for examining factors that might bridge this divide.

Beyond aggregate statistics, individual-level factors further complicate the relationship between job seekers and employment opportunities. Perceived risk associated with financial uncertainty or job instability can significantly shape career decisions, particularly for younger workers with limited employment experience. Demographic characteristics also exert systematic influences on job preferences. [5] found that gender, educational attainment, and place of residence substantially affect career preferences, with women often exhibiting different perceptions of job security compared to men. Educational background carries particular relevance for MSME employment, as higher education

levels frequently correlate with expectations for managerial or professional positions that smaller enterprises may not readily offer [6]. These demographic variations suggest that job preferences are not uniform across the Gen Z population, but rather reflect intersecting individual characteristics that moderate how workplace attributes are evaluated.

Understanding job preferences requires appropriate theoretical grounding. Herzberg's Two-Factor Theory, developed through research with accountants and engineers in the late 1950s, provides a durable framework for analyzing workplace attitudes [7]. The theory distinguishes between hygiene factors and motivator factors. Hygiene factors encompass extrinsic elements such as compensation, work environment, company policies, and interpersonal relations. According to Herzberg, the absence or inadequacy of these factors produces dissatisfaction, yet their presence does not necessarily generate satisfaction or motivation; rather, they prevent dissatisfaction. Motivator factors, by contrast, involve intrinsic elements directly related to job content, including achievement, recognition, responsibility, advancement, and personal growth. These factors produce genuine satisfaction and motivate superior performance when present. The theory's core insight that factors causing dissatisfaction differ qualitatively from those causing satisfaction carries important implications for understanding employment preferences.

The relevance of Herzberg's framework to Gen Z employment decisions deserves careful consideration. Contemporary evidence suggests that younger workers exhibit heightened sensitivity to motivator factors relative to previous generations. Randstad Workmonitor research cited by [2] indicates that 58 percent of Gen Z workers aged 18 to 24 would prefer leaving employment rather than continuing in jobs misaligned with personal interests. This finding suggests that intrinsic job characteristics may carry particular weight for this cohort. However, hygiene factors remain relevant as basic prerequisites. The question becomes not whether hygiene or motivator factors matter, but how they interact in shaping job preferences, particularly in resource-constrained MSME contexts where trade-offs between these factors may be pronounced.

Previous empirical research has examined various dimensions of job preferences among young Indonesian workers.

[8] identified that Gen Z job seekers prioritize pleasant work environments, flexible scheduling, and competitive compensation, including paid time off. [1] found that social environment and employment intentions significantly influence job-seeking behavior among Kupang residents. [9] demonstrated that work flexibility affects work-life balance and organizational commitment among millennial and Gen Z employees. Research by [10] extended these findings by showing that organizational emotional resources and career adaptability enhance person-job fit among younger workers in hospitality settings. Studies specifically addressing compensation have confirmed its significance: [11] found that compensation positively affects work engagement, while [12] identified compensation and work environment as key determinants of organizational attractiveness to job applicants.

Despite accumulating evidence, several gaps persist in the literature. First, existing studies predominantly examine job preferences in corporate or formal sector contexts, with limited attention to MSMEs despite their economic dominance. Second, research specifically addressing Indonesian Gen Z preferences toward MSME employment remains scarce, particularly for provinces outside Java, where labor market dynamics may differ substantially. Third, prior investigations largely employ descriptive or direct-effects models, leaving mediating mechanisms unexplored. Specifically, while studies separately examine work environment, flexibility, and compensation effects, few investigate whether compensation transmits the effects of other workplace attributes on job preferences. Fourth, existing research rarely applies Herzberg's framework systematically to examine whether hygiene and motivator factors operate differently in MSME contexts or whether their effects are mediated through compensation perceptions. Fifth, methodological approaches have predominantly relied on convenience samples from university students, potentially limiting generalizability to broader Gen Z populations, including those not pursuing higher education.

The present study addresses these gaps through several design features. First, it focuses specifically on the MSME sector in Gorontalo Province, examining whether factors identified in corporate contexts operate similarly in smaller enterprises. Second, it samples Gen Z individuals aged 18 to 28 years without restricting

educational attainment, thereby including those who may not pursue university education but remain relevant to MSME employment. Third, it employs mediation analysis to examine whether compensation transmits effects of work environment and work flexibility on job preferences, moving beyond direct-effects models to explore process mechanisms. Fourth, it applies Herzberg's framework systematically, examining whether relationships among variables align with theoretical predictions about hygiene and motivator factors. Fifth, it provides evidence from an understudied Indonesian province, contributing to the geographic diversification of Gen Z employment research.

The novelty of this study lies in three key contributions. First, it shifts the analytical focus from the corporate sector to the MSME context, where the gap between labor supply and demand is most acute yet least understood. Second, by testing compensation as a mediating variable, it moves beyond simple direct-effect models to uncover the mechanism through which workplace attributes influence job preferences, a critical insight for resource-constrained MSMEs seeking to optimize their recruitment strategies. Third, it provides the first empirical evidence on Gen Z job preferences in Gorontalo Province, an underrepresented region in Indonesia's employment literature, thereby offering a more geographically diverse perspective on young talent attraction.

Specifically, this study addresses the following research questions: (1) Do work environment, work flexibility, and compensation directly influence Gen Z job preferences toward MSMEs in Gorontalo Province? (2) Do work environment and work flexibility influence compensation? (3) Does compensation mediate the effects of work environment and work flexibility on job preferences? By examining these questions through the lens of Herzberg's Two-Factor Theory, the study aims to contribute theoretical insights into how hygiene and motivator factors combine to shape job preferences, while offering practical implications for MSME stakeholders seeking to attract young talent. The focus on mediation mechanisms represents a particular contribution, as understanding whether flexibility or environment effects operate through compensation perceptions carries implications for how resource-constrained enterprises might design recruitment strategies.

2. METHOD

2.1. Research Design

This study employs a quantitative explanatory design to examine the relationships between work environment, work flexibility, compensation, and job seeker preferences among Generation Z in Gorontalo Province. The explanatory approach was selected because the study aims to test hypothesized relationships derived from Herzberg's Two-Factor Theory and to examine the mediating role of compensation. Although the cross-sectional nature of the data limits claims of definitive causality, the study utilizes variance-based Structural Equation Modeling (SEM-PLS) to estimate path coefficients and mediation effects based on theoretical specification. This design is appropriate for testing both direct and indirect effects while accommodating a relatively complex model with multiple predictors and a mediating variable.

2.2. Population and Sample

The target population consists of individuals classified as Generation Z residing in Gorontalo Province who have either an interest in or are currently seeking employment in the MSME sector. For the purposes of this study, Generation Z is operationally defined as individuals born between 1997 and 2007, yielding an age range of 18 to 28 years at the time of data collection conducted from July to August 2025. This age range ensures the inclusion of individuals of legal working age while capturing the core Gen Z cohort that is either entering or preparing to enter the workforce.

Sample size determination followed established guidelines for SEM-PLS analysis. According to [13] The minimum sample requirement can be calculated based on the maximum number of arrowheads pointing to any construct in the structural model. In this study, the structural model has a maximum of three paths pointing to the endogenous construct (job seeker preferences), suggesting a minimum sample of 60 to 100 respondents using the ten-times rule. However, to enhance statistical power and ensure stability of parameter estimates, a target sample of 200 respondents was established. After data cleaning, 189 usable responses were obtained, which exceeded the minimum requirements for SEM-PLS analysis with four constructs and 24 indicators [13].

Purposive sampling was employed with the following inclusion criteria: (1) age between 18 and 28 years confirmed by

date of birth; (2) current residence in Gorontalo Province, whether in urban or rural areas; (3) self-reported intention to seek employment in the MSME sector within the next twelve months, current active job seeking in the MSME sector, or current employment in the MSME sector; and (4) voluntary willingness to participate. Intention to work in the MSME sector was operationalized through a screening question: "Are you considering seeking employment in a micro, small, or medium enterprise in Gorontalo Province within the next year?" Only affirmative responses qualified for inclusion. For respondents already employed, verification of employer status as an MSME was obtained through questions regarding the number of employees and business registration status.

2.3. Measurement Instruments

Four constructs were measured using multi-item scales adapted from previous research. All items were originally developed in English and underwent translation into Indonesian following standard back-translation procedures. [14]. Two bilingual researchers independently translated the instrument from English to Indonesian, reconciled discrepancies through discussion, and a third bilingual researcher back-translated the Indonesian version into English to verify conceptual equivalence. A pilot test was conducted with thirty individuals matching the target population to assess item clarity, comprehension, and completion time, resulting in minor wording adjustments. Table 2.1 presents the dimensions and indicators for each variable.

Table 1. Measurement Instruments

Variable	Dimensions/Indicators	Source of Adaptation
Work Environment	<ol style="list-style-type: none"> 1. Physical workspace facilities. 2. Workspace comfort. 3. Relationships with coworkers. 4. Relationships with supervisors. 5. Organizational culture. 6. Occupational health and safety. 	[15], [16]

Variable	Dimensions/Indicators	Source of Adaptation
Work Flexibility	<ol style="list-style-type: none"> 1. Flexible working hours. 2. Location flexibility. 3. Autonomy in work methods. 4. Work-life balance. 5. Flexibility in taking leave. 6. Flexibility in task assignments. 	[9], [17]
Compensation	<ol style="list-style-type: none"> 1. Base salary. 2. Health benefits. 3. Holiday allowances. 4. Performance bonuses. 5. Achievement-based incentives. 6. Salary growth prospects 	[11], [18]
Job Seeker Preferences	<ol style="list-style-type: none"> 1. Interest in working in MSMEs. 2. Active job seeking in the MSME sector. 3. Positive perception of MSMEs. 4. Willingness to accept MSME job offers. 5. Willingness to recommend MSMEs. 6. Commitment to remain in MSMEs. 	[1], [8]

2.4. Data Collection Procedures

Data collection was conducted from July to August 2025. Eligible respondents accessed the questionnaire through a Google Forms link distributed via the recruitment channels described earlier. The online format enabled reaching respondents across Gorontalo Province's geographically dispersed districts while maintaining data quality through forced-response options and

completion tracking. The questionnaire began with an informed consent statement explaining the study purpose, confidentiality assurances, voluntary participation, and the right to withdraw without consequence. Respondents provided electronic consent by selecting "I agree to participate" before proceeding.

The questionnaire consisted of four sections. The first section contained screening questions to verify eligibility based on age, residence, and MSME employment intention or status. The second section collected demographic information, including gender, education level, employment status, and district of residence. The third section contained items measuring work environment, work flexibility, and compensation. The fourth section contained items measuring job seeker preferences. Average completion time was approximately fifteen minutes. No personally identifying information was collected beyond demographic data, and all data were stored securely with access restricted to the research team.

Several precautions were implemented to ensure data quality. Screening questions at the beginning automatically excluded ineligible respondents from proceeding. Attention check items were embedded throughout the questionnaire to detect random or careless responding. IP addresses were monitored to prevent duplicate submissions. Questionnaires completed in less than five minutes triggered manual inspection for suspicious response patterns. Of the 247 initial responses received, 58 were excluded from analysis for the following reasons: failure to meet eligibility criteria (n=23), incomplete questionnaires (n=19), failed attention checks (n=11), and suspicious response patterns (n=5). This yielded 189 usable responses for analysis.

2.5. Data Analysis

Data analysis proceeded in three stages using SmartPLS 4.0 software. First, descriptive statistics were computed to characterize respondent demographics and variable distributions. Second, the measurement model evaluation assessed the reliability and validity of the constructs. Indicator reliability was evaluated through outer loadings, with values above 0.70 considered acceptable. Internal consistency reliability was assessed using Cronbach's alpha and composite reliability, with thresholds of 0.70. Convergent validity was evaluated through average variance extracted (AVE), requiring values above 0.50. Discriminant validity was assessed using the

heterotrait-monotrait (HTMT) ratio, with HTMT values below 0.90 indicating adequate discrimination.

2.5 Flowchart Research

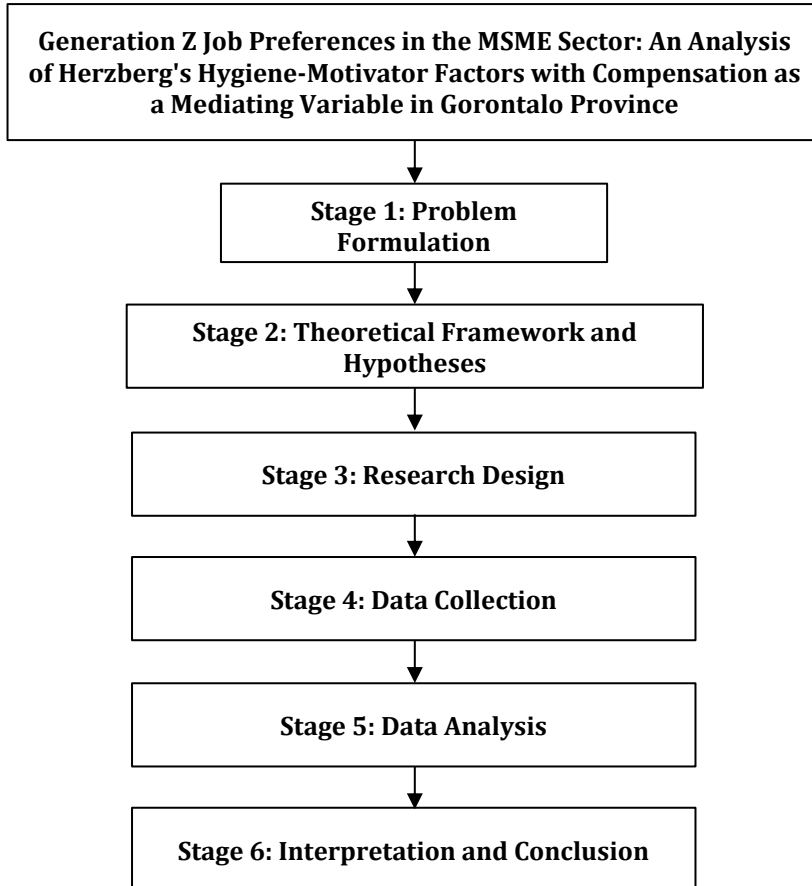


Figure 1. Flowchart Research

The research flow diagram illustrates the six sequential stages of this study. Stage 1 identifies the research problem based on the observed gap between MSME sector growth and persistent youth unemployment in Gorontalo Province. Stage 2 develops the theoretical framework using Herzberg's Two-Factor Theory and formulates seven hypotheses. Stage 3 outlines the quantitative explanatory design, including population definition, purposive sampling (n=189), and instrument development through scale adaptation, back-translation, pilot testing, and expert validation.

Stage 4 describes data collection via online surveys, employing multiple recruitment channels and screening procedures to ensure eligibility. Stage 5 details the analytical process: descriptive statistics, measurement model evaluation (reliability, convergent and discriminant validity, collinearity), and structural model assessment (path coefficients, bootstrapping, R^2 , Q^2 , f^2 , SRMR) to test direct and indirect effects. Stage 6 concludes with the interpretation of findings, theoretical and practical implications, and acknowledgment of limitations, along with directions for future research. This structured approach ensures transparency and replicability in addressing the research questions.

3. RESULTS

3.1 Framework of Research Question

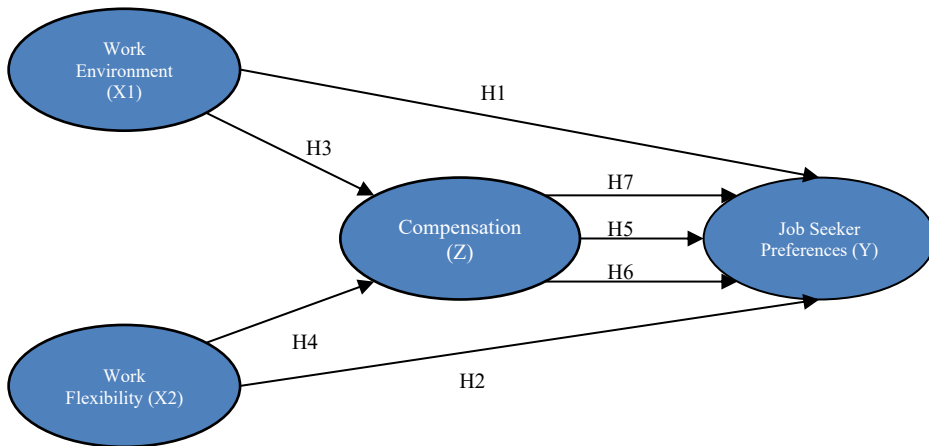


Figure 2. Outer Model PLS

Based on Figure 2, this research framework is built on Herzberg's Two-Factor Theory to analyze the factors influencing Generation Z's work preferences toward the MSME sector. The conceptual model proposes that the work environment and work flexibility act as exogenous variables influencing work preferences (endogenous variable), both directly and indirectly through compensation as a mediating variable. Specifically, this framework proposes seven hypotheses: the direct effect of the work environment on work preferences (H1), the direct effect of work flexibility on work preferences (H2), the effect of the work environment on compensation (H3), the effect of work flexibility on

compensation (H4), the effect of compensation on work preferences (H5), as well as the mediating effect of compensation in the relationship between work flexibility and work preferences (H6) and the work environment and work preferences (H7). Thus, this framework positions compensation as the central mechanism linking hygiene factors (work environment) and flexibility attributes to the formation of work preferences among the younger generation in the MSME sector.

3.2. Descriptive Characteristics of Respondents

Table 2. Demographic Characteristics of Respondents

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	87	46.0%
	Female	102	54.0%
Age	18 21 years	52	27.5%
	22 25 years	98	51.9%
	26 28 years	39	20.6%
Education	High school	87	46.0%
	Diploma	18	9.5%
	Bachelor's degree	76	40.2%
	Postgraduate degree	8	4.3%
Employment Status	Actively seeking MSME employment	98	51.9%
	Currently employed in MSME	54	28.6%
	Intending to seek MSME employment	37	19.6%
District	Gorontalo City	64	33.9%
	Bone Bolango	28	14.8%
	Gorontalo Regency	42	22.2%
	North Gorontalo	19	10.1%
	Pohuwato	21	11.1%
	Boalemo	15	7.9%

Table 2 presents the demographic profile of the 189 Generation Z respondents who participated in this study. The gender distribution shows a slight majority of female respondents (102 respondents, 54.0 percent) compared to male respondents (87

respondents, 46.0 percent). In terms of age, the largest group is respondents aged 22 to 25 years, comprising 98 individuals or 51.9 percent of the sample, followed by those aged 18 to 21 years (52 respondents, 27.5 percent), and those aged 26 to 28 years (39 respondents, 20.6 percent). Regarding educational attainment, the majority of respondents hold a high school diploma (87 respondents, 46.0 percent), followed by bachelor's degree holders (76 respondents, 40.2 percent), diploma holders (18 respondents, 9.5 percent), and postgraduate degree holders (8 respondents, 4.3 percent). Examining employment status, more than half of the respondents (98 respondents, 51.9 percent) reported actively seeking employment in the MSME sector, while 54 respondents (28.6 percent) were currently employed in MSMEs, and 37 respondents (19.6 percent) intended to seek MSME employment within the next twelve months. Geographically, respondents were drawn from all six districts of Gorontalo Province, with the largest concentrations in Gorontalo City (64 respondents, 33.9 percent) and Gorontalo Regency (42 respondents, 22.2 percent), followed by Bone Bolango (28 respondents, 14.8 percent), Pohuwato (21 respondents, 11.1 percent), North Gorontalo (19 respondents, 10.1 percent), and Boalemo (15 respondents, 7.9 percent). This distribution ensures representation across gender, age groups, educational backgrounds, employment statuses, and geographic areas, enhancing the sample's representativeness of the Gen Z population in Gorontalo Province.

Table 3. Outer VIF

Indicator	VIF
WF1	2.370
WF2	2.982
WF3	2.373
WF4	2.559
WF5	2.305
WF6	1.847
C1	2.649
C2	2.655
C3	2.526
C4	4.313
C5	3.289
C6	3.724

Indicator	VIF
WE1	2.239
WE2	2.369
WE3	3.591
WE4	3.755
WE5	3.915
WE6	2.987
JSP1	2.968
JSP2	1.865
JSP3	2.641
JSP4	3.127
JSP5	4.017
JSP6	3.402

Based on Table 3. Outer VIF, all VIF values for each indicator (WF1-WF6, C1-C6, WE1-WE6, JSP1-JSP6) are below the threshold of 5. Low VIF values indicate that there are no serious multicollinearity issues between indicators in the measurement model. This indicates that each indicator measures its latent construct uniquely and does not overlap too much with other indicators, so your model meets the multicollinearity assumption.

Table 4. Construct reliability and validity

Variable	Code	Outer Loading	Cronbach's alpha	Composite Reliability	AVE
Work Flexibility	WF1	0.812	0.935	0.937	0.650
	WF2	0.864			
	WF3	0.764			
	WF4	0.804			
	WF5	0.816			
	WF6	0.773			
Compensation	C1	0.846	0.922	0.930	0.755
	C2	0.850			
	C3	0.838			
	C4	0.912			
	C5	0.877			
	C6	0.887			

Variable	Code	Outer Loading	Cronbach's alpha	Composite Reliability	AVE
Work Environment	WE1	0.801	0.933	0.937	0.749
	WE2	0.827			
	WE3	0.900			
	WE4	0.894			
	WE5	0.897			
	WE6	0.870			
Job Seeker Preferences	JSP1	0.865	0.893	0.900	0.721
	JSP2	0.731			
	JSP3	0.844			
	JSP4	0.862			
	JSP5	0.897			

Based on the analysis results presented in Table 4, all constructs in this study, Work Flexibility, Compensation, Work Environment, and Job Seeker Preferences, have met the criteria for convergent validity. This is evidenced by the outer loading values for all indicators, which exceed 0.70 (ranging from 0.731 to 0.912), indicating that each indicator contributes strongly to its respective construct. Furthermore, the Average Variance Extracted (AVE) for each variable surpasses the minimum threshold of 0.50. with values of 0.650 (Work Flexibility), 0.755 (Compensation), 0.749 (Work Environment), and 0.721 (Job Seeker Preferences). This confirms that each construct explains more than half of the variance of its indicators. The high internal consistency is further supported by Cronbach's Alpha and Composite Reliability values, all of which are above 0.70 for every variable. Therefore, it can be concluded that all instruments used in this study are valid and reliable for measuring their respective conceptualized variables.

Table 5. Heterotrait-monotrait ratio (HTMT)

	Work Flexibility	Compensation	Work Environment	Job Seeker Preferences
Work Flexibility				

Compensation	0.831		
Work Environment	0.819	0.867	
Job Seeker Preferences	0.768	0.822	0.841

Table 5 presents the results of the discriminant validity assessment using the Heterotrait-Monotrait ratio (HTMT). Based on the criteria established by [13] HTMT values below 0.90 indicate that discriminant validity has been adequately established between constructs. The analysis reveals that all HTMT values are well below this threshold: the correlation between work flexibility and compensation is 0.819, between work flexibility and work environment is 0.768, and between compensation and work environment is 0.822. Furthermore, the diagonal values (0.831, 0.867, and 0.841) represent the square root of the Average Variance Extracted (AVE) for each construct, and consistent with the Fornell-Larcker criterion, these diagonal values exceed all corresponding off-diagonal correlations, providing additional evidence of discriminant validity. These findings confirm that respondents conceptually distinguish between work flexibility, compensation, and work environment as separate constructs, and that each construct captures unique variance not shared with other constructs in the model.

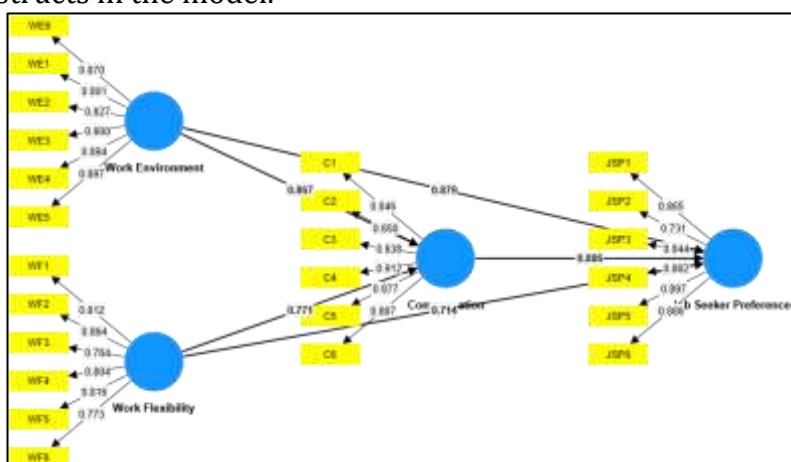


Figure 3. Outer Model PLS

Table 6. Path Analysis for Hypothesis Testing

Hypothesis	Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
H1	Work Environment → Job Seeker Preferences	0.462	0.454	0.090	5.131	0.000
H2	Work Flexibility → Job Seeker Preferences	0.036	0.029	0.056	0.655	0.512
H3	Work Environment → Compensation	0.671	0.660	0.078	8.568	0.000
H4	Work Flexibility → Compensation	0.256	0.266	0.072	3.530	0.000
H5	Compensation → Job Seeker Preferences	0.514	0.513	0.087	5.877	0.000

Table 6 presents the results of hypothesis testing for the direct effects among variables in this study. The analysis shows that the work environment has a positive and significant effect on job

seeker preferences (coefficient = 0.462; t = 5.131; p = 0.000), thus the first hypothesis (H1) is accepted. Conversely, work flexibility has no significant effect on job seeker preferences (coefficient = -0.036; t = 0.655; p = 0.512), meaning the hypothesis testing this direct effect is rejected. Furthermore, the work environment is proven to have a positive and significant effect on compensation (coefficient= 0.671; t= 8.568; p= 0.000), and similarly, work flexibility has a positive and significant effect on compensation (coefficient= 0.256; t= 3.530; p= 0.000). Finally, compensation has a positive and significant effect on job seeker preferences (coefficient = 0.514; t = 5.877; p = 0.000). Thus, of the five direct effects tested in the model, four are declared significant, while one effect, namely work flexibility on job seeker preferences, is not statistically significant.

Table 7. Indirect Effects Result

Hypothesis	Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
H6	Work Flexibility → Compensation → Job Seeker Preferences	0.131	0.136	0.041	3.202	0.001
	Work Environment → Compensation → Job Seeker Preferences	0.345	0.340	0.077	4.508	0.000
H7	Compensation → Job Seeker Preferences					

Table 7 presents the results of mediation analysis examining the indirect effects of work flexibility and work environment on job

seeker preferences through compensation. The analysis reveals that compensation significantly mediates the relationship between work flexibility and job seeker preferences ($\beta= 0.131$; $t= 3.202$; $p= 0.001$), thus hypothesis H6 is supported. Similarly, compensation significantly mediates the relationship between work environment and job seeker preferences ($\beta= 0.345$; $t= 4.508$; $p= 0.000$), thus hypothesis H7 is supported.

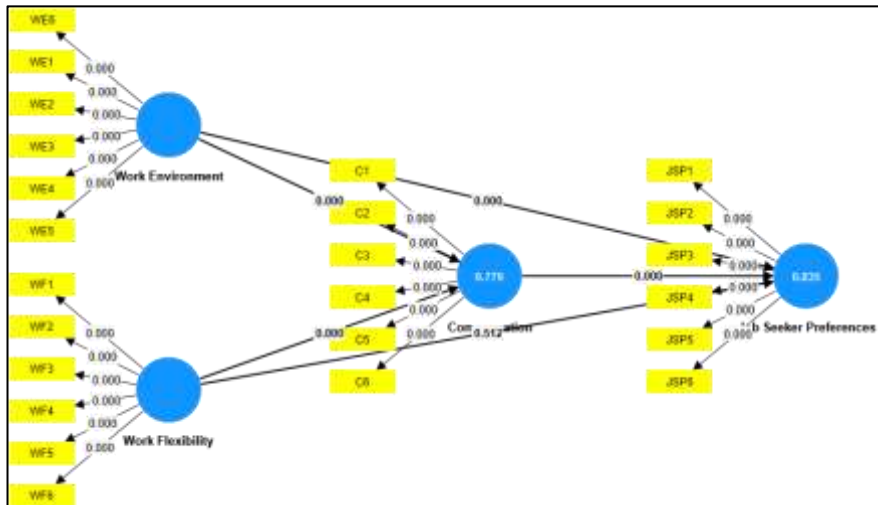


Figure 4. Path Model PLS

Table 8. R² Analysis

Construct	R ²	R ² Adjusted	Interpretation
Compensation	0,779	0,777	Substantial
Job Seeker Preferences	0,835	0,833	Substantial

Table 8 presents the coefficient of determination (R²) values for the endogenous constructs in the structural model. The R² value for compensation is 0.779, indicating that work environment and work flexibility collectively explain 77.9 percent of the variance in compensation. After adjusting for the number of predictors, the adjusted R² remains high at 0.777, confirming the robustness of this explanatory power. Furthermore, the R² value for job seeker preferences is 0.835, meaning that work environment, work flexibility, and compensation together explain 83.5 percent of the variance in job seeker preferences. The adjusted R² value of 0.833

reinforces this finding. According to [19], R^2 values of 0.67, 0.33, and 0.19 are considered substantial, moderate, and weak, respectively. Based on this guideline, both R^2 values in this study exceed the substantial threshold, indicating that the model possesses strong explanatory power. The high R^2 for job seeker preferences suggests that the selected predictors effectively capture the key factors influencing Generation Z's preferences toward MSME employment, while the high R^2 for compensation demonstrates that work environment and work flexibility are strong determinants of compensation perceptions in this context.

Table 9. f^2 Analysis

Construct	f^2	Interpretation
Work Environment → Compensation	0.837	Large
Work Environment → Job Seeker Preferences	0.289	Medium (approaching large)
Compensation → Job Seeker Preferences	0.354	Large
Work Flexibility → Compensation	0.122	Small
Work Flexibility → Job Seeker Preferences	0.003	Negligible

Table 9 presents the effect sizes (f^2) for each path in the structural model. Effect size measures the magnitude of a predictor construct's contribution to the R^2 value of an endogenous construct. According to [20] guidelines, f^2 values of 0.02, 0.15, and 0.35 represent small, medium, and large effects, respectively. The analysis reveals that the work environment has a large effect on compensation ($f^2= 0.837$), indicating that the work environment substantially contributes to explaining variance in compensation. Work environment also demonstrates a medium-to-large effect on job seeker preferences ($f^2= 0.289$), approaching the large effect threshold. Compensation exhibits a large effect on job seeker preferences ($f^2= 0.354$), confirming its substantial role in shaping preferences. Work flexibility shows a small effect on compensation ($f^2= 0.122$), indicating a modest but meaningful contribution. However, work flexibility has a negligible effect on job seeker

preferences ($f^2 = 0.003$), consistent with the non-significant direct path found in hypothesis testing. These f^2 values reinforce the pattern that work environment and compensation are the primary drivers of job seeker preferences, while work flexibility operates predominantly through compensation rather than directly.

Table 10. Q^2 Analysis-Predictive Relevance

Construct	Q^2	Category	RMSE	MAE
Compensation	0.771	Large	0.490	0.339
Job Seeker Preferences	0.770	Large	0.491	0.347

Table 9 presents the Stone-Geisser Q^2 values, which assess the predictive relevance of the structural model. The Q^2 values are obtained through the blindfolding procedure in PLS-SEM and indicate how well the model predicts the indicators of each endogenous construct. According to [13], Q^2 values greater than zero indicate that the model has predictive relevance for a particular endogenous construct. The analysis reveals that compensation has a Q^2 value of 0.771, while job seeker preferences have a Q^2 value of 0.770. Both values substantially exceed the threshold of zero, demonstrating that the model possesses strong predictive relevance for both endogenous constructs. Following the guidelines of [13], Q^2 values of 0.02, 0.15, and 0.35 indicate small, medium, and large predictive relevance, respectively. With Q^2 values of 0.771 and 0.770, both constructs fall into the category of large predictive relevance. This finding confirms that the model not only explains a high proportion of variance in the endogenous constructs (as indicated by the R^2 values of 0.779 and 0.835) but also demonstrates excellent capability in predicting the indicator variables of compensation and job seeker preferences. The low RMSE and MAE values further support the accuracy of these predictions, with RMSE values of 0.490 for compensation and 0.491 for job seeker preferences, indicating minimal prediction errors.

4. Discussion

4.1 The Influence of Work Environment on Job Seeker Preferences of Generation Z in the MSME Sector

The SEM-PLS analysis confirms that work environment exerts a positive and statistically significant direct effect on

Generation Z job seeker preferences toward the MSME sector ($\beta=0.462$, $t= 5.131$, $p= 0.000$), with a medium-to-large effect size ($f^2=0.289$). Together with compensation and work flexibility, the work environment contributes to explaining 83.5% of the variance in job seeker preferences ($R^2= 0.835$). This result indicates that a supportive work environment encompassing physical workspace facilities, comfort, coworker and supervisor relationships, organizational culture, and occupational health and safety serves as a strong predictor of young job seekers' willingness to consider, accept, and remain in MSME employment in Gorontalo Province.

These findings align closely with several prior studies on Gen Z preferences. [21] demonstrated that workplace environment significantly shapes Gen Z's desire for hybrid work arrangements across corporate, family, and entrepreneurial settings; the present study extends this by showing that even in resource-constrained MSMEs, tangible and relational aspects of the environment remain powerful attractors [22]. Similarly, [23] found that Gen Z job seekers in hospitality prioritize environments aligned with sustainability, diversity, and social responsibility values that directly correspond to the organizational culture and interpersonal support dimensions measured in this research. [24] Further support the result by showing that perceived organizational conditions and support significantly reduce quiet-quitting intentions among Gen Z, as young workers favor balanced and low-stress environments over intense competition. Finally, [25] highlighted that Gen Z values face-to-face interpersonal connections and mentoring more than remote options, reinforcing why relational factors (coworker and supervisor relationships) emerge as key drivers in the MSME context, where informal interactions are the norm.

The descriptive characteristics of the 189 respondents provide additional context for this strong effect. A slight female majority (54.0%) and the largest age group (51.9% aged 22-25 years) represent the peak entry-to-early-career stage when individuals are most sensitive to psychosocial work conditions. More than half of the respondents (51.9%) were actively seeking MSME employment, while 28.6% were already employed in the sector, indicating that those with direct exposure to MSME realities still place a high value on environmental quality. The educational

mix (46.0% high-school graduates and 40.2% bachelor's degree holders) shows inclusion of both university-bound and non-university Gen Z groups that may not expect corporate-level perks but do expect basic comfort and supportive culture. In Gorontalo Province, where MSME units grew by approximately 40%, yet youth unemployment remains at 11.94%, a positive work environment functions as a low-cost differentiator for smaller firms that cannot compete solely on salary.

Within Herzberg's Two-Factor Theory, work environment is classically classified as a hygiene factor whose absence causes dissatisfaction but whose presence does not necessarily motivate. The strong positive path coefficient observed here suggests a contextual extension for Gen Z in MSMEs: because these young workers grew up amid digital connectivity and heightened awareness of mental health, a supportive environment transcends mere hygiene and actively contributes to preference formation. This nuance echoes the reviewed literature's emphasis on psychological well-being and work-life integration rather than separation. For MSMEs in Gorontalo, the practical implication is clear: investing in relational culture and basic physical comfort can yield disproportionate returns in attracting young talent, even when compensation remains modest.

4.2 The Influence of Work Flexibility on Job Seeker Preferences of Generation Z in the MSME Sector

In contrast to the work environment, the SEM-PLS analysis reveals that work flexibility does not exert a statistically significant direct effect on Generation Z job seeker preferences toward the MSME sector ($\beta = -0.036$, $t = 0.655$, $p = 0.512$), with a negligible effect size ($f^2 = 0.003$). This indicates that flexible working hours, location flexibility, autonomy in work methods, work-life balance, and flexibility in leave and task assignments do not independently drive young job seekers' preferences in the Gorontalo MSME context.

This finding partially diverges from existing literature. [21] and [9] documented Gen Z's strong preference for flexible work arrangements. Similarly, [26] found scheduling flexibility to be particularly important for women. However, the non-significant direct effect in the current study suggests that in resource-limited MSME settings, flexibility alone is insufficient to attract Gen Z without additional supporting factors [27]. This is consistent with [28], who noted that Gen Z often prefers clear boundaries between

work and personal life rather than unstructured flexibility. The result is further supported by [29] and [30], who found that flexibility influences outcomes primarily through mediation mechanisms such as compensation or job satisfaction.

The descriptive profile of respondents provides important context. A combined 80.5% of the sample was either actively seeking (51.9%) or already employed (28.6%) in the MSME sector. This high level of engagement with MSMEs suggests respondents are realistically aware that flexibility in small enterprises is often informal and unstructured, which may introduce uncertainty regarding job stability and income consistency. With 54% female respondents, the absence of a significant direct effect is particularly noteworthy given prior findings on gender and flexibility preferences.

From the perspective of Herzberg's Two-Factor Theory, work flexibility can be positioned as part of the broader working conditions (a hygiene factor). Hygiene factors are expected to prevent dissatisfaction rather than actively create positive motivation. The negligible direct effect observed here supports this theoretical proposition: while flexibility may reduce potential dissatisfaction, it does not independently generate strong job preferences in the MSME context unless bundled with other factors such as compensation. This finding extends Herzberg's framework by highlighting that in smaller enterprises, hygiene factors such as flexibility require reinforcement through tangible rewards to effectively influence talent attraction.

For MSMEs in Gorontalo, the implication is clear: offering flexibility is beneficial, but it should not be presented in isolation. Instead, flexibility needs to be integrated into a comprehensive employment package where adequate compensation acts as the key transmission mechanism.

4.3 The Influence of Work Environment on Compensation in the MSME Sector

The SEM-PLS analysis reveals that work environment exerts a strong positive and statistically significant direct effect on perceived compensation ($\beta = 0.671$, $t = 8.568$, $p = 0.000$), with a large effect size ($f^2 = 0.837$). Together with work flexibility, work environment explains 77.9% of the variance in compensation perceptions ($R^2 = 0.779$). This indicates that a supportive work

environment comprising physical facilities, workspace comfort, interpersonal relationships, organizational culture, and occupational health and safety substantially enhances Generation Z job seekers' perception of the adequacy of total rewards in the MSME sector.

These results are consistent with several studies reviewed on the relationship between work environment and compensation. [31] demonstrated that a positive work environment significantly influences employees' perceptions of total reward strategies, leading to higher satisfaction and motivation. Similarly, [32] found that a favorable work environment, as part of a total reward system, improves perceived compensation and subsequently boosts job satisfaction and productivity among Generation Z workers. [33] further support this by showing that psychosocial aspects of the work environment (such as support and social influence) have a stronger impact on job satisfaction than monetary rewards alone; when the environment is positive, employees tend to perceive their compensation package more favorably. The current finding also aligns with [34], who reported that organizations adjust compensation sensitivity based on environmental conditions, indicating that a supportive environment serves as a signal of organizational stability and fairness in reward allocation.

Within Herzberg's Two-Factor Theory, both work environment and compensation are classified as hygiene factors whose primary role is to prevent dissatisfaction rather than generate motivation. The strong path coefficient ($\beta = 0.671$) observed here illustrates an important interaction within the hygiene domain: a positive work environment does not merely coexist with compensation but actively enhances its perceived value. This finding extends Herzberg's original framework by demonstrating that, in resource-constrained MSME contexts, hygiene factors are interdependent; a supportive environment functions as a non-monetary signal that reinforces the attractiveness of the compensation package, thereby reducing potential dissatisfaction and indirectly shaping job preferences.

4.4 The Influence of Work Flexibility on Compensation in the MSME Sector

The SEM-PLS analysis demonstrates that work flexibility exerts a positive and statistically significant direct effect on perceived compensation ($\beta = 0.256$, $t = 3.530$, $p = 0.000$), although

the effect size is small ($f^2 = 0.122$). Together with work environment, work flexibility accounts for 77.9% of the variance in compensation perceptions ($R^2 = 0.779$). This result indicates that flexible working hours, location flexibility, autonomy in work methods, work-life balance provisions, and flexibility in leave and task assignments enhance Generation Z job seekers' perception of the overall adequacy of the compensation package in the Gorontalo MSME sector.

These findings align with several studies in the reviewed literature. [35] and [36] reported that flexible work practices are often associated with wage premiums and improved perceptions of total rewards, as organizations use flexibility to attract and retain talent. Similarly, [37] found that flexible work arrangements mediate the relationship between compensation and talent retention, showing that flexibility strengthens the perceived value of monetary rewards. The current study extends these results to the MSME context, where flexibility is frequently informal; even unstructured flexibility appears to function as a positive signal of employee-oriented management, thereby elevating compensation perceptions.

In Herzberg's Two-Factor Theory, job flexibility is classified as a working situation, which is a traditional hygiene factor. Hygiene elements are anticipated to avert unhappiness rather than serve as direct motivators. The notable (although slight) beneficial effect seen here corroborates and expands the theory: flexibility does not function in isolation but enhances the perceived worth of another hygiene factor compensation. This connection illustrates that in MSME environments, hygiene variables are interconnected; providing flexibility enables job candidates to perceive the wage package more positively, hence diminishing potential unhappiness and indirectly aiding in preference development.

4.5. The Influence of Compensation on Job Seeker Preferences of Generation Z in the MSME Sector

The SEM-PLS analysis confirms that compensation exerts the strongest positive and statistically significant direct effect on Generation Z job seeker preferences toward the MSME sector ($\beta = 0.514$, $t = 5.877$, $p = 0.000$), with a large effect size ($f^2 = 0.354$). This path, together with work environment and work flexibility, contributes to explaining 83.5% of the variance in job seeker

preferences ($R^2 = 0.835$). The result indicates that base salary, health benefits, holiday allowances, performance bonuses, achievement-based incentives, and salary growth prospects are the dominant drivers of young job seekers' willingness to consider, accept, and remain in MSME employment in Gorontalo Province.

These findings align closely with the reviewed literature on compensation and Gen Z preferences. The study [38] demonstrated that when faced with trade-offs, individuals, including Gen Z, consistently prefer high-compensation jobs over those offering only meaningful work. Similarly, [12] and [11] found that competitive compensation is a key determinant of organizational attractiveness and work engagement among Indonesian Gen Z. The current study extends these results to the MSME context, where resource constraints often limit salary levels; even modest but transparently structured compensation remains a powerful attractor when perceived as fair and growth-oriented [39].

In Herzberg's Two-aspect Theory, compensation is a fundamental hygiene aspect that leads to unhappiness when absent, although its presence does not inherently foster drive. The significant positive path coefficient indicates a contextual expansion within the MSME framework: for Generation Z entering a labor market characterized by elevated youth unemployment, remuneration surpasses its conventional hygiene function and emerges as a pivotal determinant of job preferences. When combined with a conducive work environment, remuneration serves as the primary conduit via which other hygiene aspects affect preferences. This interaction elucidates that hygiene factors are interconnected; in resource-limited settings, sufficient remuneration enhances the motivational capacity of the overall job package.

4.6. The Mediating Effect of Compensation on the Relationship between Work Flexibility and Job Seeker Preferences of Generation Z

The SEM-PLS analysis confirms a significant indirect effect of work flexibility on Generation Z job seeker preferences through compensation as the mediating variable ($\beta = 0.131$, $t = 3.202$, $p = 0.001$). Because the direct effect of work flexibility on job seeker preferences is non-significant ($H2: \beta = -0.036$, $p = 0.512$), this constitutes full mediation. In other words, flexible working hours, location autonomy, work-life balance, and related provisions

influence young job seekers' preferences toward the MSME sector only when they are transmitted through enhanced perceptions of compensation adequacy.

This full mediation is consistent with several studies reviewed on Gen Z employment preferences. [29] found that work flexibility significantly affects Gen Z retention through job satisfaction mediation, with transparent and fair compensation serving as the central mechanism. Similarly, [30] reported that flexibility increases overall attractiveness only when combined with competitive compensation, creating a holistic employment experience. [37] Further support this by demonstrating that flexible work arrangements mediate the compensation-talent retention linkage in SMEs. The present finding also aligns with [17] and [9], who emphasized the importance of flexibility-compensation bundling rather than flexibility in isolation.

In Herzberg's Two-Factor Theory, job flexibility and compensation are categorized as hygiene factors, primarily serving to avert unhappiness rather than to foster motivation. The comprehensive mediation identified here enhances the theory by uncovering a significant interaction within the hygiene domain: flexibility alone inadequately mitigates discontent or influences choices unless it amplifies the perceived value of compensation. In resource-limited MSME environments, compensation serves as the essential conduit via which other hygiene elements exercise their impact. [40]. This complexity underscores that hygiene issues are interrelated rather than autonomous, especially for Generation Z, who place significant importance on financial security in the context of elevated youth unemployment.

4.7. The Mediating Effect of Compensation on the Relationship between Work Environment and Job Seeker Preferences of Generation Z

The SEM-PLS analysis confirms a significant indirect effect of work environment on Generation Z job seeker preferences through compensation as the mediating variable ($\beta = 0.345$, $t = 4.508$, $p = 0.000$). Because the direct effect of work environment on job seeker preferences remains significant (H1: $\beta = 0.462$, $p = 0.000$), this constitutes partial mediation. In other words, a supportive work environment influences young job seekers' preferences both

directly and indirectly by enhancing their perception of compensation adequacy.

This partial mediation aligns with several studies in the reviewed literature. [31] and [32] showed that positive work environments improve employees' overall perception of total rewards, which in turn boosts job satisfaction and attraction. Similarly, [41] and [42] found that compensation partially mediates the relationship between work environment and key outcomes such as turnover intention and organizational commitment among younger workers. The current study extends these findings to the MSME context in Gorontalo, demonstrating that even in resource-constrained settings, a supportive environment acts as a credible signal that elevates perceived compensation value and thereby strengthens job preferences.

According to Herzberg's Two-Factor Theory, both the work environment and salary are fundamental hygiene aspects designed to avert unhappiness rather than to serve as active motivators. The observed partial mediation enhances the theory by demonstrating interdependence within the hygiene domain: a supportive work environment not only coexists with compensation but also amplifies its perceived worth, so conveying part of its influence on job preferences. This research emphasizes that in MSME contexts, hygiene elements are interdependent; compensation acts as the primary conduit through which environmental quality affects talent attraction. The outcome elucidates why compensation serves as the most potent direct predictor (H5); it acts as the integrative conduit for other hygiene qualities.

5. CONCLUSION

This study concludes that work environment and compensation are the primary factors associated with Generation Z job seeker preferences in the MSME sector of Gorontalo Province, whereas work flexibility shows no direct significant effect. Compensation plays a central mediating role, fully transmitting the influence of work flexibility and partially transmitting the influence of work environment on job preferences. These findings are reasonable in the context of Gorontalo's high youth unemployment and rapid MSME growth, where financial stability and supportive working conditions appear more decisive than flexibility alone for young talent attraction. The results support Herzberg's Two-Factor

Theory by confirming that work environment, flexibility, and compensation function as hygiene factors that primarily prevent dissatisfaction. At the same time, they extend the theory by demonstrating interdependence among these hygiene factors in resource-constrained MSME settings: compensation serves as the key transmission mechanism through which other workplace attributes shape preferences. By examining these relationships in an understudied provincial MSME context and applying mediation analysis, the present research advances the body of scientific knowledge beyond descriptive surveys to reveal the underlying process mechanisms of Gen Z talent attraction. Practically, MSMEs should prioritize supportive work environments and transparent competitive compensation while integrating flexibility into a comprehensive total-rewards package. Limitations include the cross-sectional design, purposive sampling, and reliance on self-reported hypothetical preferences. Future studies employing longitudinal designs and broader geographic coverage would further strengthen the generalizability of these insights.

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