

The Effect of Work-Life Balance and Psychological Safety on Generation Z Employee Performance with Employee Wellbeing as a Mediating Variable

Sukri¹, Saharuddin², Asriany³

¹ Management, University Of Muhammadiyah Palopo, sukri@umpalopo.ac.id

² Management, University Of Muhammadiyah Palopo, asriany@umpalopo.ac.id

³ Management, University Of Muhammadiyah Palopo, saharuddin@umpalopo.ac.id

Abstract

Purpose: This study examines the effect of Work-Life Balance and Psychological Safety on Generation Z employee performance, with Employee Wellbeing as a mediating variable.

Design/methodology/approach: A quantitative explanatory design was used, involving Generation Z employees at a technology-based service company as respondents, determined through the Slovin formula approach. Data were collected through structured questionnaires using a Likert scale and analyzed using Partial Least Square Structural Equation Modeling (PLS-SEM) with SmartPLS software.

Findings: Work-Life Balance and Psychological Safety each have a positive and significant direct effect on employee performance and on Employee Wellbeing. Employee Wellbeing positively affects employee performance and significantly mediates the relationship between both Work-Life Balance and Psychological Safety with employee performance. The proposed model demonstrates strong explanatory power for employee performance.

Practical implications: Organizations should implement genuine flexible work arrangements, cultivate psychologically safe team climates through leader modeling, and invest in wellbeing-focused HR interventions to optimize Generation Z employee performance.

Originality/value: This study extends Job Demands-Resources theory by jointly modeling a structural (WLB) and a relational (PS) job resource as complementary antecedents of wellbeing and performance among Generation Z employees, a combination rarely tested simultaneously in prior literature.

Paper type: empirical

Keywords: Work-Life Balance, Psychological Safety, Employee Wellbeing, Employee Performance, Generation Z

1. Introduction

The entry of Generation Z into the global workforce has fundamentally reshaped organizational expectations regarding work design, wellbeing, and performance management (Waworuntu et al., 2022). As digital natives who grew up amid rapid technological change, economic uncertainty, and heightened awareness of mental health, this cohort brings distinct values and expectations into the employment relationship that differ markedly from those of preceding generations (Aggarwal et al., 2020).

Unlike previous generations, Generation Z places a markedly higher premium on work-life balance, mental health, and psychologically safe work environments as prerequisites for sustained engagement and productivity (Manafe et al., 2025). This generational shift compels organizations to reconsider traditional performance management paradigms that historically prioritized output and tenure over employee experience and holistic wellbeing.

Work-Life Balance (WLB) is defined as the degree to which an individual is able to simultaneously balance the emotional, behavioral, and time demands of both paid work and family responsibilities (Greenhaus & Allen, 2011). This construct has consistently been identified as a significant predictor of job performance across generational cohorts, with organizations increasingly recognizing that rigid, inflexible work arrangements are misaligned with the expectations of a younger workforce (Sinurat, 2025; Utomo et al., 2024).

Empirical evidence demonstrates that Generation Z employees who perceive a favorable balance between work and personal life exhibit higher levels of job satisfaction, engagement, and performance (Waworuntu et al., 2022). For Generation Z specifically, work-life balance is not merely the absence of conflict between roles but an active pursuit of integration and flexibility, reflecting their strong preference for autonomy over when, where, and how work is performed (De Boer & Bordoloi, 2022).

Concurrently, Psychological Safety (PS) has emerged as a critical determinant of employee learning behavior and performance. Edmondson (1999) defines psychological safety as a shared belief that one is safe to take interpersonal risks such as speaking up, admitting mistakes, or asking questions without fear of embarrassment or punishment, a condition particularly salient in team-based and fast-paced work environments.

Kahn's (1990) foundational work on personal engagement positions psychological safety as one of three core psychological conditions—alongside meaningfulness and availability—that determine whether employees bring their full selves into their work roles. Building on this foundation, recent studies confirm that psychological safety fosters employee performance through mechanisms such as job crafting and thriving at work (Kim et al., 2020), underscoring its relevance for a generation that highly values transparent communication and inclusive leadership.

Despite robust independent evidence linking WLB and PS to performance outcomes, the mechanism through which these two job resources jointly translate into performance—particularly through employee wellbeing—remains underexplored, especially within the Generation Z cohort. Most prior studies have examined these constructs in isolation, leaving a gap in understanding of how structural and relational job resources jointly shape wellbeing-driven performance pathways (Sarwar et al., 2021).

Employee Wellbeing (EW) is a multidimensional construct encompassing psychological, emotional, and social dimensions of an employee's functioning at work (Warr, 1994; Wilczyński & Kołozyszcz, 2023). Within the Job Demands-Resources (JD-R) framework, employee wellbeing is theorized as the proximal outcome of job resources, which subsequently drives distal outcomes such as performance, positioning it as a plausible mediating mechanism connecting WLB and PS to performance (Bakker & Demerouti, 2017; Demerouti et al., 2001).

This study addresses this gap by simultaneously testing WLB and PS as antecedents of Generation Z employee performance, with Employee Wellbeing positioned as a mediating mechanism. This integrated model responds to calls in the literature for research that captures both structural and relational job resources within a single explanatory framework rather than treating them as independent, unrelated predictors (Selvia et al., 2025).

Accordingly, this study aims to examine the direct effects of WLB and PS on Generation Z employee performance, their effects on Employee Wellbeing, the effect of Employee Wellbeing on performance, and the mediating role of Employee Wellbeing in linking both WLB and PS to employee performance. The findings are expected to offer theoretical contributions to the JD-R literature and practical guidance for organizations managing an increasingly Generation Z-dominated workforce.

2. Literature Review and Hypotheses Development

2.1 Job Demands-Resources (JD-R) Theory

This study is grounded in the Job Demands-Resources (JD-R) theory developed by Demerouti et al. (2001) and subsequently refined by Bakker and Demerouti (2017). JD-R theory posits that every occupation involves specific risk factors associated with job stress, which can be categorized into job demands and job resources. Job resources such as work-life balance policies and psychologically safe team climates reduce the impact of job demands, foster personal growth and development, and are functional in achieving work goals (Bakker & Demerouti, 2017). Within this framework, job resources initiate a motivational process in which employees experience enhanced wellbeing, which in turn fuels engagement and performance (Schaufeli & Bakker, 2004; Demerouti et al., 2001). WLB and PS are conceptualized in this study as two distinct but complementary job resources one structural/temporal and one relational/climatic that jointly enhance employee wellbeing and, ultimately, performance.

2.2 Work-Life Balance

Work-Life Balance refers to an individual's perception of adequate functioning at work and at home, with minimal role conflict (Greenhaus & Allen, 2011). For Generation Z, WLB is not merely the absence of conflict but an active pursuit of integration and flexibility, reflecting their strong preference

for autonomy over when, where, and how work is performed (De Boer & Bordoloi, 2022; Manafe et al., 2025). Empirical studies consistently report that WLB is positively associated with job satisfaction, engagement, and performance across Generation Z cohorts, though the strength of this relationship tends to be moderated by contextual factors such as flexible work arrangements and managerial support (Sinurat, 2025; Utomo et al., 2024; Manafe et al., 2025).

2.3 Psychological Safety

Psychological Safety is defined as a shared belief that a team or work environment is safe for interpersonal risk-taking (Edmondson, 1999). Kahn (1990) originally conceptualized psychological safety as the sense of being able to show and employ oneself without fear of negative consequences to self-image, status, or career. Edmondson's (1999) empirical work demonstrated that team psychological safety is positively associated with learning behavior, which subsequently mediates the relationship between psychological safety and team performance. More recent research extends this to individual-level performance, showing that psychological safety fosters performance through job crafting and thriving mechanisms (Kim et al., 2020).

2.4 Employee Wellbeing

Employee Wellbeing is conceptualized as a multidimensional construct encompassing psychological, emotional, and social dimensions of functioning at work (Warr, 1994). Ryff's (1989) psychological wellbeing model identifies six dimensions—self-acceptance, positive relations with others, autonomy, environmental mastery, purpose in life, and personal growth—that have been widely adapted in organizational wellbeing research (Wilczyński & Kołoszycz, 2023). Within the JD-R framework, employee wellbeing functions as the proximal outcome of job resources such as WLB and PS, subsequently influencing distal work outcomes including performance, retention, and engagement (Bakker & Demerouti, 2017).

2.5 Employee Performance

Employee performance refers to the extent to which an employee fulfills the duties and responsibilities assigned by the organization, encompassing both task performance and contextual/behavioral performance dimensions (Koopmans et al., 2014). For Generation Z, performance is increasingly evaluated not only through output metrics but through indicators of adaptability, collaboration, and sustained engagement over time (Aggarwal et al., 2020).

2.6 Hypotheses Development

- H1: Work-Life Balance has a positive and significant effect on Generation Z Employee Performance.
- H2: Psychological Safety has a positive and significant effect on Generation Z Employee Performance.
- H3: Work-Life Balance has a positive and significant effect on Employee Wellbeing.
- H4: Psychological Safety has a positive and significant effect on Employee Wellbeing.
- H5: Employee Wellbeing has a positive and significant effect on Generation Z Employee Performance.
- H6: Employee Wellbeing mediates the relationship between Work-Life Balance and Generation Z Employee Performance.
- H7: Employee Wellbeing mediates the relationship between Psychological Safety and Generation Z Employee Performance.

3. Research Method

This study employed a quantitative explanatory research design to test causal relationships among variables through hypothesis testing (Hair et al., 2019). Data were collected via a cross-sectional survey administered to Generation Z employees at a technology-based service company in Indonesia between March and May 2026.

The population comprised 344 Generation Z employees (born 1997–2007) employed at the case organization. Sample size was determined using the Slovin formula: $n = N / (1 + N \cdot e^2)$, where $N = 344$ and $e = 0.05$, yielding $n \approx 185$ respondents. Purposive sampling was employed with the following inclusion criteria: (1) permanent or contract employees born between 1997 and 2007; and (2) minimum tenure of six months at the organization.

All constructs were measured using a 5-point Likert scale (1 = Strongly Disagree; 5 = Strongly Agree): Work-Life Balance (5 items; Greenhaus & Allen, 2011), Psychological Safety (5 items; Edmondson, 1999), Employee Wellbeing (5 items; Warr, 1994; Ryff, 1989), and Employee Performance (4 items; Koopmans et al., 2014).

Data were analyzed using Partial Least Square Structural Equation Modeling (PLS-SEM) with SmartPLS 4.0, selected due to its suitability for testing complex models with mediating variables and its robustness with non-normally distributed data (Hair et al., 2019). The measurement model (outer model) was evaluated for convergent validity ($AVE > 0.50$, outer loading > 0.70), discriminant validity ($HTMT < 0.90$), and reliability (Composite Reliability > 0.70 , Cronbach's alpha > 0.70). The structural model (inner model) was assessed via R^2 , Q^2 , path coefficients, and mediation testing using bootstrapping with 5,000 subsamples at a two-tailed significance level of $p < 0.05$ (Hair et al., 2019).

4. Result and Discussion

4.1 Respondent Characteristics

The majority of respondents were female (50.8%, $n = 94$), aged 22–25 years (50.3%, $n = 93$), held a bachelor's degree (58.4%, $n = 108$), and had less than one year of tenure (40.0%, $n = 74$), consistent with the demographic profile of the early-career Generation Z workforce.

4.2 Descriptive Statistics

Table 1. Descriptive statistics

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Variable	Mean	Std. dev.	Min	Max
Work-Life Balance	3.729	0.199	3.065	4.231
Psychological Safety	3.629	0.220	3.059	4.208
Employee Wellbeing	3.571	0.197	2.897	4.131
Employee Performance	3.703	0.244	3.077	4.435

Source(s): smart PLS

Hypothesis	Relationship	Effect type	β	T-statistic	p-value	Result
H1	Work-Life Balance to Employee Performance	Direct effect	0.198	2.215	0.027	Supported
H2	Psychological Safety to Employee Performance	Direct effect	0.187	2.083	0.038	Supported
H3	Work-Life Balance to Employee Wellbeing	Direct effect	0.402	5.671	0.000	Supported

Hypothesis	Relationship	Effect type	β	T-statistic	p-value	Result
H4	Psychological Safety to Employee Wellbeing	Direct effect	0.378	5.294	0.000	Supported
H5	Employee Wellbeing to Employee Performance	Direct effect	0.389	5.802	0.000	Supported
H6	WLB to EW to Employee Performance	Indirect (mediation via EW)	0.156	3.887	0.000	Supported
H7	PS to EW to Employee Performance	Indirect (mediation via EW)	0.147	3.652	0.000	Supported

Figure 1. Summary of research results

4.3 Measurement Model Evaluation

AVE, composite reliability, and Cronbach's alpha. Variable Indicator Outer Loading AVE CR α . Work-Life Balance WLB1–WLB5 0.792–0.834 0.663 0.907 0.871, Psychological Safety PS1–PS5 0.795–0.829 0.658 0.906 0.868, Employee Wellbeing EW1–EW5 0.798–0.840 0.666 0.909 0.873, Employee Performance KK1–KK4 0.805–0.836 0.670 0.890 0.837. All outer loadings exceed 0.70, and all AVE values exceed 0.50, confirming convergent validity. Composite Reliability (range: 0.890–0.909) and Cronbach's alpha (range: 0.837–0.873) values exceed 0.70, confirming construct reliability (Hair et al., 2019). All HTMT values among constructs range from 0.688 to 0.752, below the 0.90 threshold, confirming adequate discriminant validity (Henseler et al., 2015).

4.4 Structural Model Evaluation

The model explains 38.9% of the variance in Employee Wellbeing ($R^2 = 0.389$, $Q^2 = 0.301$) and 41.2% of the variance in Employee Performance ($R^2 = 0.412$, $Q^2 = 0.334$). Positive Q^2 values confirm the model's predictive relevance (Hair et al., 2019).

4.5 Hypothesis Testing

Table 3. Hypothesis testing results

Hypothesis Path β T-stat p-value Result

H1 WLB → Employee Performance 0.198 2.215 0.027 Supported

H2 Psychological Safety → Employee Performance 0.187 2.083 0.038 Supported

H3 WLB → Employee Wellbeing 0.402 5.671 0.000 Supported

H4 Psychological Safety → Employee Wellbeing 0.378 5.294 0.000 Supported

H5 Employee Wellbeing → Employee Performance 0.389 5.802 0.000 Supported

H6 WLB → Employee Wellbeing → Performance 0.156 3.887 0.000 Supported

H7 PS → Employee Wellbeing → Performance 0.147 3.652 0.000 Supported

5. Conclusion

This study confirms that both Work-Life Balance and Psychological Safety are significant direct and indirect predictors of Generation Z employee performance, with Employee Wellbeing serving as a robust partial mediator in both relationships. All seven hypotheses were empirically supported, and the model explains 41.2% of the variance in employee performance.

This study extends Job Demands-Resources theory by empirically validating that structural (Work-Life Balance) and relational (Psychological Safety) job resources operate as complementary, non-redundant antecedents of employee wellbeing and performance within the Generation Z cohort. Organizations seeking to optimize Generation Z employee performance should: (1) implement flexible work arrangements that genuinely accommodate personal life demands; (2) cultivate psychologically safe team climates through leader modeling of vulnerability and non-punitive error handling; (3) invest in wellbeing-focused HR interventions; and (4) design generation-specific engagement programs addressing Generation Z's expectations regarding autonomy and psychological safety.

This study is limited by its cross-sectional design, which precludes causal inference regarding the temporal ordering of relationships, and by its single-organization context, which limits generalizability. Future research should employ longitudinal, cross-industry designs and consider moderating variables such as leadership style or organizational culture to further refine the boundary conditions of the

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