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The Influence of Leadership Style, Work Environment, and Compensation on Generation Z Employee Loyalty at Universitas Terbuka

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Abstract

Background: Generation Z employee loyalty is important for maintaining academic and administrative service continuity in higher education institutions. However, the relationships between organisational factors and employee loyalty require further examination in open and distance higher education.
Objective: This study examines the relationships between leadership style, work environment, compensation, and Generation Z employee loyalty at Universitas Terbuka.
Methods: A quantitative survey involved 98 Generation Z employees from UT Pusat and UT Daerah/UPBJJ. Data were collected using a Likert-scale questionnaire and analysed through Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4.
Results: The measurement model met the reported convergent validity and reliability criteria, although discriminant validity could not be independently verified. The structural model explained 33.7% of the variation in employee loyalty (R^2 = 0.337). Leadership style showed a non-significant relationship with loyalty (β = 0.074; p = 0.327). Compensation demonstrated a positive and statistically significant relationship (β = 0.333; p < 0.001) and the largest effect size (f^2 = 0.128). The work environment showed a positive relationship (β = 0.277; reported p = 0.036), although its statistical significance requires verification of the testing convention.
Conclusion: Compensation and supportive working conditions are relevant considerations for managing Generation Z employee loyalty at Universitas Terbuka. The findings provide context-specific evidence but do not establish causal relationships.

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INTRODUCTION

Generation Z has become an important segment of the contemporary workforce, bringing expectations concerning communication, technology, professional development, and organisational support (Priporas et al., 2017; Schroth, 2019). The West Java Labour Force Survey for August 2024 reports that 62.62% of employed Generation Z and post-Generation Z individuals in the province worked in the formal sector, compared with 37.38% in informal employment (Barat, 2025). These figures describe provincial employment status rather than national employment patterns or employee loyalty. Nevertheless, they illustrate the relevance of studying young employees' experiences in formal organisations. In higher education institutions, employee

loyalty is particularly important for maintaining continuity in academic and administrative services.

The central issue examined in this study is how Generation Z employee loyalty relates to organisational conditions within Universitas Terbuka, an institution operating across central and regional units. Loyalty encompasses employees' intention to stay, pride in their organisation, willingness to recommend it, and readiness to contribute additional effort (Guillon & Cezanne, 2014). Leadership practices, workplace conditions, and compensation arrangements may each relate to these dimensions, but their relative associations within the same institutional context have not been established in the evidence reviewed here (Amelia & Lin, 2024; Robbins & Judge, 2017). Differences in work locations also make supportive communication, workplace conditions, and consistent human resource practices relevant concerns. The study therefore considers three organisational predictors concurrently rather than treating loyalty as a function of any single factor.

Relevant studies have examined these predictors and related outcomes in different settings. Doan and Wu (2026) review leadership styles and a range of Generation Z learning and work outcomes, without specifically estimating loyalty in Indonesian open and distance higher education. Suyatno and Rokhimah (2026) examine the work environment and turnover intention among 258 Generation Z employees; turnover intention is related to, but not interchangeable with, multidimensional loyalty. Adiatma et al. (2025) investigate compensation, job satisfaction, and retention among Generation Z employees in Surabaya, including the mediating role of job satisfaction. Taken together, these studies provide a basis for considering leadership, working conditions, and compensation, while leaving a contextual and construct-specific gap concerning their simultaneous relationships with loyalty at Universitas Terbuka.

Addressing this gap is relevant to human resource management in an open and distance higher education institution, where continuity of services depends partly on employees' sustained organisational attachment and contributions. Generation Z employees may evaluate their workplace through a combination of managerial support, physical and social working conditions, and perceived fairness of rewards. Examining these factors together can help distinguish which relationships are more prominent within the surveyed group. Such evidence is useful for developing context-sensitive managerial priorities, although a cross-sectional survey cannot establish causal effects or population-wide patterns.

The conceptual model includes leadership style (X1), work environment (X2), and compensation (X3) as predictors of Generation Z employee loyalty (Y). Leadership style covers inspirational influence, individual consideration, intellectual stimulation, openness of communication, and empowerment of subordinates (Haidar & Maitsa, 2026; Northouse, 2021). The work environment comprises physical conditions, relationships among co-workers, supervisor support, work culture, and work–life balance (Damayanti & Pratama, 2023). Compensation includes salary fairness, allowances, incentives, non-financial rewards, and transparency of the compensation system (Martocchio, 2024). Employee loyalty is operationalised through intention to stay, organisational pride, willingness to recommend the organisation, and willingness to give extra effort. These dimensions define the constructs assessed in the study rather than providing evidence of causal effects.

The novelty of this study lies in the concurrent examination of the three organisational predictors against a multidimensional employee loyalty construct among Generation Z employees from UT Pusat and UT Daerah/UPBJJ. Unlike studies focused on turnover intention, employee retention, or general work outcomes, this study directly assesses loyalty as reflected in attachment, advocacy, and additional contribution. Its contribution is therefore a context-bound comparison of organisational associations within a geographically distributed higher education institution. The design does not establish that the relationships are unique to Universitas Terbuka, because no cross-institutional comparison was conducted. Figure 1 presents the conceptual framework connecting the predictors and loyalty dimensions used in this research.

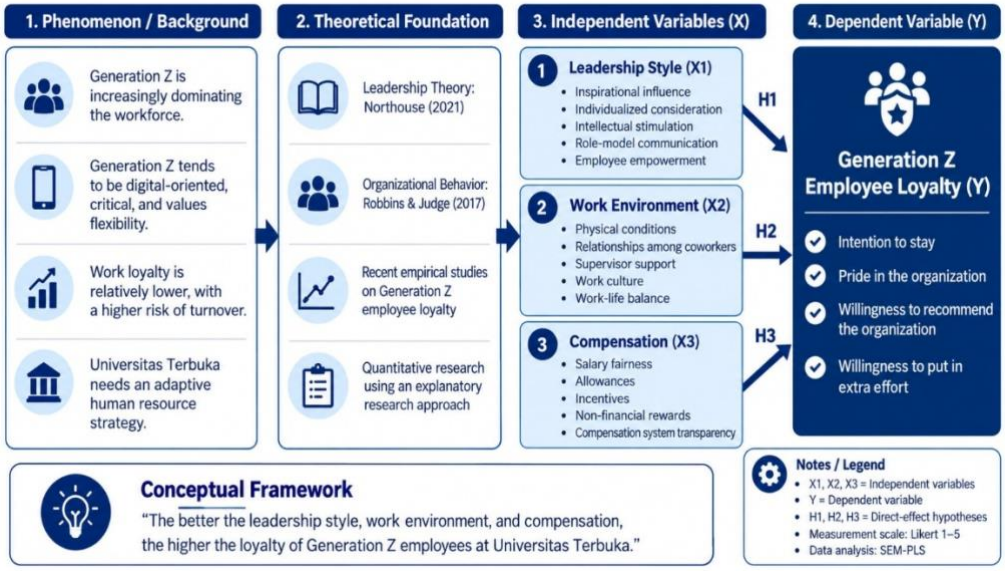

Figure 1. Conceptual Framework

Accordingly, this research addresses three questions: whether leadership style, work environment, and compensation are each associated with Generation Z employee loyalty at Universitas Terbuka. The study aims to assess these relationships simultaneously using the specified constructs and to compare their relative contributions within the research model. The proposed positive hypotheses for the three predictors are evaluated through the PLS-SEM analysis described in the Method section.

Academically, the study contributes empirical evidence on the simultaneous relationships between organisational factors and Generation Z employee loyalty in an open and distance higher education setting. Practically, its findings may inform reviews of reward fairness, workplace support, communication practices, and employee development priorities at Universitas Terbuka. The implications should be interpreted as managerial considerations rather than proven intervention effects, given the study's cross-sectional design and sample limitations. This interpretation provides a basis for further research involving additional organisational factors and comparison groups.

METHOD

The study employed a quantitative approach with a survey design. Descriptive statistical analysis was used to describe respondent characteristics and data distributions, while Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed to examine the relationships between exogenous and endogenous latent variables. The research was conducted at Universitas Terbuka, covering UT Pusat and UT Daerah across Indonesia, from February to October 2026.

The study population comprised Generation Z employees at Universitas Terbuka, including those working at UT Pusat and UT Daerah/UPBJJ. A total of 98 respondents were included in the final analysis. Although the original methodology identified the sampling technique as simple random sampling, the available methodological information did not document the sampling frame or the random selection procedure. Consequently, the representativeness of the sample could not be independently established, and the findings should therefore be interpreted as applying primarily to the surveyed respondents.

The research model consisted of three exogenous variables, namely leadership style (X1), work environment (X2), and compensation (X3), and one endogenous variable, namely Generation Z employee loyalty (Y). Leadership style was measured using five dimensions: inspirational influence, individual consideration, intellectual stimulation, openness of communication, and empowerment of subordinates. The work environment was measured using five dimensions: physical conditions, relationships among co-workers, supervisor support, work culture, and work–life balance. Compensation was measured using five dimensions: salary

fairness, allowances, incentives, non-financial rewards, and transparency of the compensation system. Employee loyalty was measured using four dimensions: intention to stay, pride in the organisation, willingness to recommend the organisation, and willingness to exert extra effort.

Table 1
Research variables

Variable	Dimension/Indicator	Item Code	Measurement Focus
Leadership Style (X1)	Inspirational influence	X1.1-X1.3	Vision, exemplary behaviour, and the ability to arouse enthusiasm.
	Individual consideration	X1.4-X1.6	Understanding of needs, guidance, and concern for employees.
	Intellectual stimulation	X1.7-X1.9	Encouragement of new ideas, evaluation of work methods, and creativity.
	Openness of communication	X1.10-X1.12	Transparency of information, willingness to listen, and a sense of safety in communicating.
	Empowerment of subordinates	X1.13-X1.15	Granting of authority, involvement, and trust.
Work Environment (X2)	Physical conditions	X2.1-X2.3	Cleanliness, safety, facilities, and physical comfort.
	Relationships among co-workers	X2.4-X2.6	Mutual respect, helping, and cooperation.
	Supervisor support	X2.7-X2.9	Practical support, fair treatment, and support when the workload increases.
	Work culture	X2.10–X2.12	Collaboration, consistency of values, learning, and innovation.
	Work–life balance	X2.13–X2.15	Balance, flexibility, and recovery time.
Compensation (X3)	Salary fairness	X3.1–X3.3	Suitability to responsibilities, internal fairness, and external competitiveness.
	Allowances	X3.4–X3.6	Benefits, suitability, and sense of security.
	Incentives	X3.7–X3.9	Linkage to performance, reasonableness, and motivation.
	Non-financial rewards	X3.10–X3.12	Recognition, development, and formal/informal appreciation.
	Transparency of the compensation system	X3.13–X3.15	Clarity of components, criteria, and access to information.
Employee Loyalty (Y)	Intention to stay	Y1–Y3	Plans to stay and low desire to leave.
	Pride in the organisation	Y4–Y6	Pride and positive identification with the organisation.
	Willingness to recommend the organisation	Y7–Y9	Recommendation and positive communication about the organisation.
	Willingness to give extra effort	Y10–Y12	Extra effort, assistance beyond duties, and proactive contribution.

Data were analysed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. The measurement model was evaluated using indicator loadings, Average Variance Extracted (AVE), Cronbach's alpha, and composite reliability. Discriminant validity was also considered separately; however, the available summary results did not include the heterotrait–monotrait (HTMT) ratio or cross-loading matrix required for independent verification. The structural model was assessed using the coefficient of determination (R^2), effect size (f^2), and bootstrapping-based hypothesis testing. Statistical significance was evaluated at a threshold of $p < 0.05$. However, because the reported t-statistics and p-values suggested the possible use of one-tailed significance testing, the original SmartPLS testing configuration needed to be verified before the final significance decisions could be confirmed.

Following the theoretical development of the conceptual framework, the research model was illustrated using a path diagram to visualise the hypothesised relationships between the exogenous and endogenous latent variables. Based on the theoretical review and previous empirical research examining the influence of leadership style, work environment, and compensation on Generation Z employee loyalty at Universitas Terbuka, an integrated model was proposed to examine the combined effects of these three independent variables on employee loyalty, as illustrated in the figure 2.

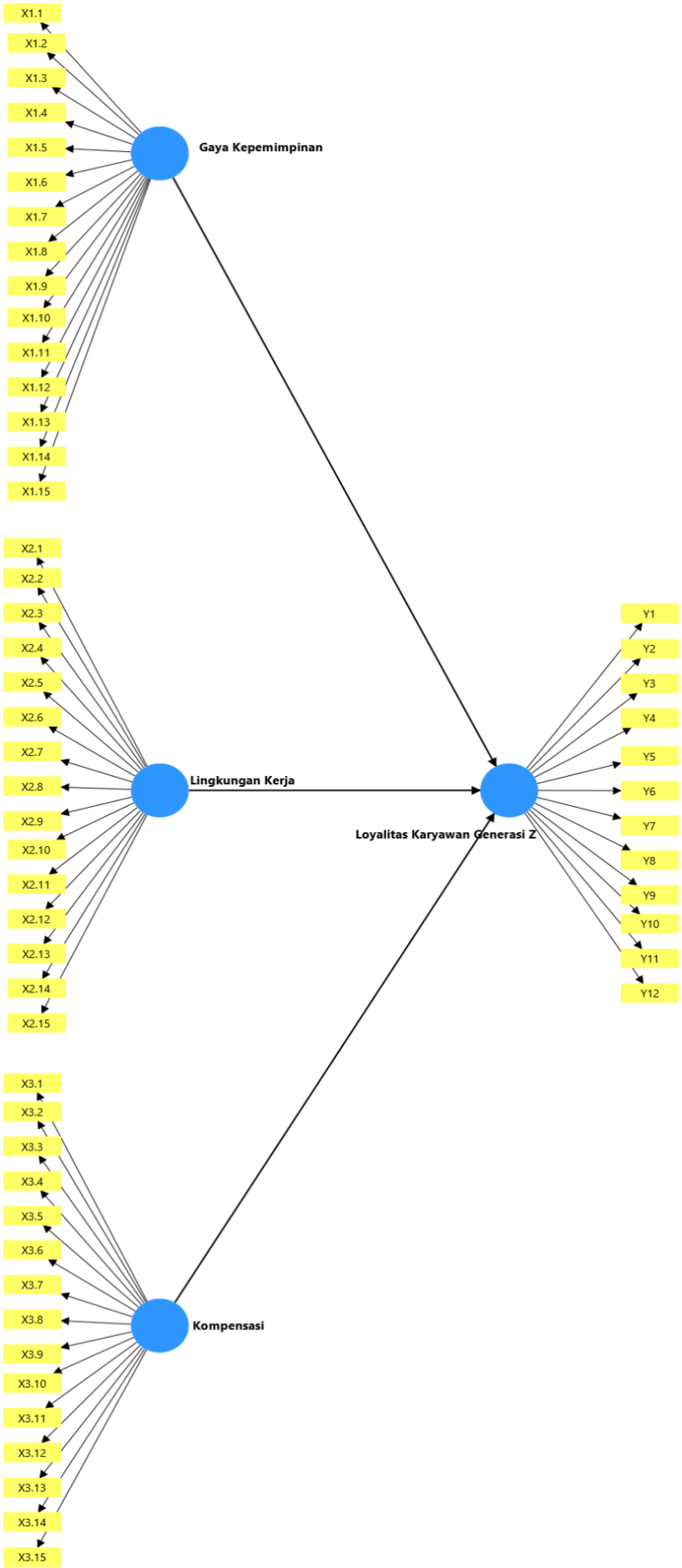

Figure 2. Research Model

H1: Leadership style has a positive effect on Generation Z employee loyalty at Universitas Terbuka.
H2: The work environment has a positive effect on Generation Z employee loyalty at Universitas Terbuka.
H3: Compensation has a positive effect on Generation Z employee loyalty at Universitas Terbuka.

RESULTS AND DISCUSSION

Research Results

Respondent Characteristics

A total of 98 respondents participated in the study. Female respondents numbered 62 people (63.3%) and male 36 people (36.7%). Based on employee status, the largest group is PUT Non PNS with 48 people (49.0%), followed by PUT PK 32 people (32.7%), and PNS 18 people (18.4%). Based on length of service, 55 respondents (56.1%) have a service period of 2-10 years and 43 respondents (43.9%) have a service period of less than 2 years. The majority of respondents are educational staff, namely 78 people (79.6%), while lecturers number 20 people (20.4%). Based on work location, 54 respondents (55.1%) come from UT Pusat and 44 respondents (44.9%) come from UT Daerah/UPBJJ.

Table 2
Characteristics of research respondents

Characteristic	Category	n (%)
Gender	Female	62 (63.3%)
	Male	36 (36.7%)
Employee status	PUT Non PNS	48 (49.0%)

Measurement Model Evaluation

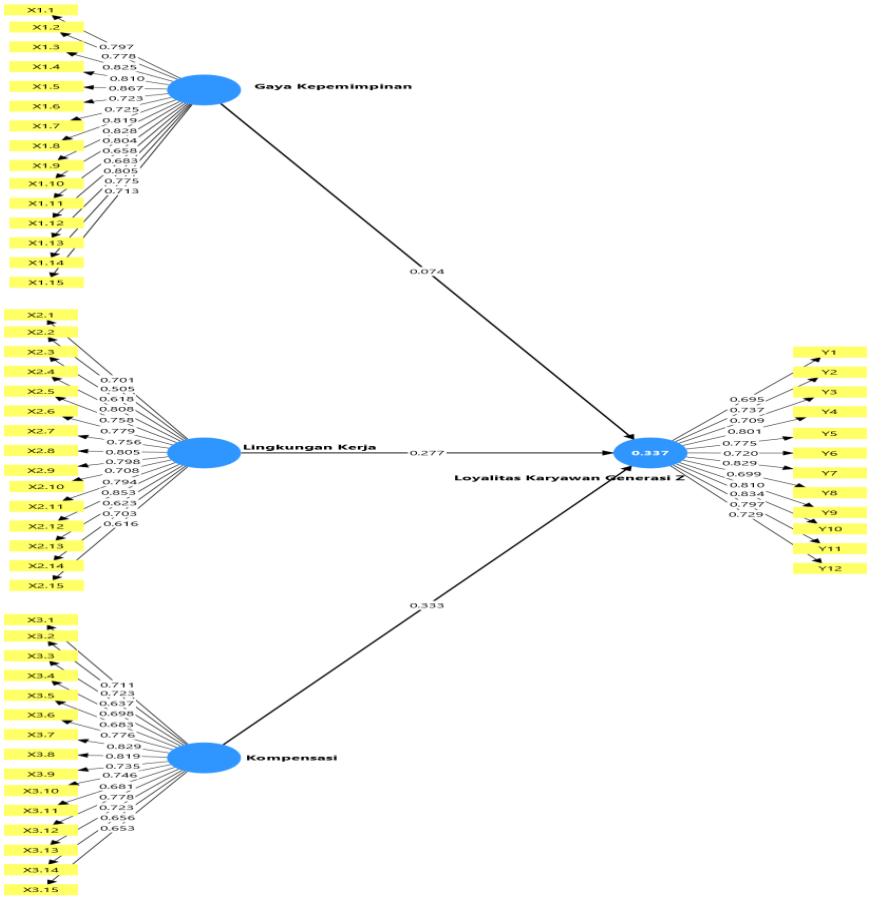

Figure 3. Factor Loading & R-Square Values

The results of the convergent validity evaluation show that the AVE values of all constructs are above 0.50, namely leadership style 0.602, work environment 0.529, compensation 0.526, and Generation Z employee loyalty 0.582. The Composite Reliability values also all exceed 0.70, namely 0.958 for leadership style and 0.943 each for work environment, compensation, and loyalty.

The AVE and composite reliability values in Table 3 support convergent validity and internal consistency according to the reported criteria. Several indicator loadings fall between 0.50 and 0.70, so retention requires consideration of item relevance rather than automatic acceptance. Importantly, discriminant validity cannot be independently verified from the summary statistics presented here: the original item-level cross-loading matrix, construct correlations, and HTMT values were not supplied. An HTMT matrix (commonly assessed against a conservative threshold of 0.85 or a context-dependent threshold of 0.90) or complete cross-loading matrix should be exported directly from SmartPLS 4 before a definitive discriminant-validity claim is made (Hair et al., 2019). No unreported values are imputed.

Table 3
Summary of construct validity and reliability

Construct	AVE	Cronbach's Alpha	CR (rho_a)	CR (rho_c)
Leadership Style	0.602	0.953	0.960	0.958
Work Environment	0.529	0.935	0.946	0.943
Compensation	0.526	0.936	0.938	0.943
Gen Z Loyalty	0.582	0.934	0.938	0.943

Structural Model Evaluation

The structural model produced an R-square value of 0.337 and an adjusted R-square value of 0.316 for Generation Z employee loyalty. These results indicate that leadership style, work environment, and compensation collectively accounted for 33.7% of the observed variation in employee loyalty among the surveyed respondents. The remaining 66.3% represents variation not explained by the proposed model, which may reflect other relevant determinants, measurement error, and residual variation. Therefore, the model provides partial explanatory evidence rather than a comprehensive account of Generation Z employee loyalty.

The effect size (f-square) shows a value of 0.002 for leadership style, 0.031 for work environment, and 0.128 for compensation. Based on the criteria used in the report, the contribution of leadership style is very small, the work environment contributes small, while compensation has the largest contribution and approaches the medium category.

Table 4
Summary of PLS-SEM hypothesis testing

Relationship	Coefficient	t-statistic	p-value	Decision
Leadership Style -> Loyalty	0.074	0.447	0.327	Not significant
Work Environment -> Loyalty	0.277	1.795	0.036	Significant
Compensation -> Loyalty	0.333	3.464	<0.001	Significant

Hypothesis Testing Results

The test shows a positive path coefficient of 0.074, t-statistic of 0.447, and p-value of 0.327. Thus, the influence of leadership style on loyalty is not significant at the 5% significance level. The f-square value of 0.002 also shows a very small contribution to explaining loyalty. This finding indicates that, in this research sample, variation in perceptions of leadership behaviour has not become the main direct determinant of Generation Z employees' decisions to stay.

The work environment showed a positive path coefficient of 0.277, with a reported t-statistic of 1.795 and p-value of 0.036. These findings indicate a positive association between perceived work environment quality and Generation Z employee loyalty. However, the reported significance level appears consistent with a one-tailed test and requires confirmation from the original SmartPLS 4 bootstrapping output. Accordingly, the statistical significance of this relationship should be interpreted conditionally until the testing convention has been verified.

The positive coefficient suggests that more favourable perceptions of working conditions, interpersonal relationships, supervisor support, organisational culture, and work-life balance are associated with higher reported employee loyalty in the sample.

Compensation has a path coefficient of 0.333, t-statistic of 3.464, and p-value of less than 0.001. This relationship is positive and significant. Among the three predictors, compensation has the highest f-square value, namely 0.128. This finding indicates that the perception of salary fairness, allowance benefits, incentives, non-financial rewards, and transparency of the compensation system is associated with increased loyalty of Generation Z employees.

Discussion

The Influence of Leadership Style on Generation Z Employee Loyalty

The results show that leadership style does not have a significant effect on Generation Z employee loyalty at Universitas Terbuka. This is shown by the path coefficient value of 0.074 with a t-statistic value of 0.447 and a p-value of 0.327, which is greater than the 0.05 significance level. The f-square value of 0.002 also shows that the contribution of leadership style in explaining employee loyalty is relatively very small. Thus, in the context of this study, variation in employee perceptions of leadership style has not become a factor that directly determines their loyalty to Universitas Terbuka. This result does not mean that leadership has no meaning in the organisation, but shows that the influence of leadership on loyalty may work through other mechanisms not directly tested in this research model, such as job satisfaction, employee engagement, quality of communication, perceived organisational support, or career development factors.

This finding differs from the results of Doan and Wu (2026) which, through a systematic literature review, show that transformational leadership is one of the leadership styles consistently associated with positive work outcomes in Generation Z employees. The difference in results may be due to differences in the focus of the dependent variable. Doan and Wu's study reviewed various learning and work outcomes of Generation Z, while this study specifically tests employee loyalty. Thus, effective leadership does not necessarily directly increase loyalty, especially if employees' needs for other aspects such as compensation, work environment, flexibility, and work experience have not been met. The literature on Generation Z also shows that this group needs clear communication, support, development, and management that suits the characteristics of its generation (Karim & Hidayat, 2025).

The Influence of the Work Environment on Generation Z Employee Loyalty

The findings indicate a positive relationship between the perceived work environment and Generation Z employee loyalty at Universitas Terbuka (Widuri & Sari, 2024). The estimated path coefficient was 0.277, with a reported t-statistic of 1.795 and p-value of 0.036. Although these values suggest statistical significance under a one-tailed testing convention, confirmation of the original bootstrapping settings remains necessary. Conceptually, the work environment encompasses not only physical workplace conditions but also interpersonal relationships, supervisor support, organisational culture, and work-life balance. These dimensions may contribute to employees' positive workplace experiences and organisational attachment (Putra, 2025). Nevertheless, the cross-sectional survey design does not establish that improvements in these conditions directly cause higher employee loyalty.

The results of this study are in line with Suyatno and Rokhimah (2026) who found that work environment conditions have a significant relationship with turnover intention in Generation Z employees. That study shows that a good work environment for Generation Z is not only related to physical facilities, but also includes support, appreciation, opportunities to develop, communication, flexibility, and meaningfulness of work. These findings strengthen the results of this study because loyalty and turnover intention are two concepts related to employees' tendency to maintain or leave the organisation. The results of this study are also in line with the research of Handayani and Rahma (2025) which places the work environment as one of the factors related to Generation Z employee loyalty in Indonesia.

In the context of Universitas Terbuka, the influence of the work environment becomes increasingly relevant because respondents come from UT Pusat and UT Daerah/UPBJJ. These

differences in work location cause the organisation to need to ensure that the quality of the work environment, support, communication, facilities, and organisational culture can be felt relatively consistently by employees. An inclusive, collaborative, safe work environment, and one supported by adequate facilities and technology can create comfort and a sense of attachment to the organisation. Therefore, improving the quality of the work environment can be one of the important approaches in maintaining Generation Z employee loyalty.

The Influence of Compensation on Generation Z Employee Loyalty

Compensation demonstrated a positive and statistically significant association with Generation Z employee loyalty and showed the largest effect size among the three predictors examined. The estimated path coefficient was 0.333, with a t-statistic of 3.464 and a reported p-value below 0.001. The f-square value of 0.128 further indicates that compensation made the largest incremental contribution to the model's explanatory power relative to leadership style and work environment. These findings suggest that favourable employee perceptions of salary fairness, allowances, incentives, non-financial rewards, and compensation transparency are associated with higher levels of reported loyalty. However, the observational research design does not permit a causal interpretation of this relationship.

This result is consistent with the research of Adiatma et al. (2025) which found that compensation has a positive and significant effect on job satisfaction and retention of Generation Z employees. That study also shows that job satisfaction acts as a mediator between compensation and retention. These findings can provide an explanation for the results of this study, namely that compensation perceived as fair and adequate can create a more positive work experience so that it increases employees' tendency to maintain a relationship with the organisation. Thus, compensation is not merely understood as the amount of salary received, but also as a form of organisational appreciation for employee contributions.

The findings of this study are also in line with the study of Daniswara and Putri (2025) on Generation Z employee loyalty which places compensation as one of the factors related to loyalty. In this study, the compensation aspect covers salary fairness, allowances, incentives, non-financial rewards, and transparency. This shows that organisations need to pay attention to perceptions of fairness and openness in providing compensation, not just increasing the nominal amount of rewards. A compensation system that is clear, consistent, appropriate to job responsibilities, and considers employee contributions has the potential to create a positive perception of the organisation and strengthen employee attachment.

Overall, the findings indicate that compensation and the work environment exhibit stronger positive associations with Generation Z employee loyalty than leadership style in the surveyed sample. The structural model explains 33.7% of the observed variation in loyalty, while the remaining 66.3% is not explained by the predictors included in the model. Compensation demonstrates the largest effect size (f^2 = 0.128), followed by the work environment (f^2 = 0.031) and leadership style (f^2 = 0.002). However, the statistical significance of the work environment relationship remains subject to verification of the hypothesis-testing convention. These findings suggest that Generation Z employee loyalty is associated with multiple organisational conditions rather than a single managerial factor. Future research could examine additional variables, including career development, job satisfaction, employee engagement, and perceived organisational support, to improve the explanatory capacity of the model (Yang & Wijaya, 2023).

Thus, the results of this study provide a picture that managing Generation Z employee loyalty at Universitas Terbuka requires an approach that is not only oriented toward leadership style, but also pays attention to the quality of the work environment and the compensation system. Although leadership style does not show a significant direct influence in this study, open communication, mentorship, empowerment, and support for employee development remain relevant as part of the work experience. Its influence on loyalty may occur through other variables as mediators or moderators. Therefore, further research can develop the model by including job satisfaction, employee engagement, work-life balance, career development, work flexibility, and perceived organisational support to obtain a more comprehensive understanding of the factors that shape Generation Z loyalty in the higher education environment.

CONCLUSION

This study examined the relationships between leadership style, work environment, compensation, and Generation Z employee loyalty among 98 employees at Universitas Terbuka. The findings indicate that leadership style was not significantly associated with employee loyalty ($\beta = 0.074$; $p = 0.327$), whereas compensation demonstrated a positive and statistically significant relationship ($\beta = 0.333$; $p < 0.001$). The work environment also exhibited a positive relationship ($\beta = 0.277$; reported $p = 0.036$), although its statistical significance requires confirmation of the hypothesis-testing convention. The model explained 33.7% of the observed variation in employee loyalty ($R^2 = 0.337$). Compensation demonstrated the largest effect size ($f^2 = 0.128$), followed by the work environment ($f^2 = 0.031$) and leadership style ($f^2 = 0.002$). These findings contribute to the understanding of Generation Z employee loyalty by examining three organisational predictors simultaneously within an open and distance higher education institution.

The findings suggest that Universitas Terbuka should consider compensation fairness, reward transparency, and supportive workplace conditions when reviewing human resource management practices. Although leadership style did not demonstrate a significant direct relationship with loyalty, effective communication, employee empowerment, and professional development remain relevant organisational considerations. Nevertheless, the cross-sectional research design, sampling limitations, and incomplete discriminant validity evidence restrict causal interpretation and generalisability. Future research should verify the measurement and structural model results, examine potential mediating variables, and include respondents from other higher education institutions to provide a more comprehensive understanding of Generation Z employee loyalty.

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AUTHOR CONTRIBUTION STATEMENT

Irmawaty: conceptualisation, research methodology design, preparation of the initial draft of the manuscript, and research supervision. Nenah Sunarsih: data collection, data curation, formal analysis using PLS-SEM, and validation of research results. Arie Wibowo Khurniawan: literature review search and preparation, visualisation. All authors have read and approved the final version of the manuscript for publication.

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