

## THE MEDIATING ROLE OF EMPLOYEE ENGAGEMENT IN LINKING TRANSFORMATIONAL LEADERSHIP AND EMPLOYEE WELL-BEING TO EMPLOYEE PERFORMANCE (Evidence from a State-Owned Enterprise Subsidiary)

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### Abstract

*This study examines the mediating role of employee engagement in the relationship between transformational leadership, employee well-being, and employee performance within a state-owned enterprise (SOE) subsidiary operating in the Testing, Inspection, and Certification (TIC) sector. A quantitative explanatory design was employed using census sampling of 173 employees at the Head Office of an Indonesian SOE subsidiary. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), following measurement and structural model assessment procedures. Transformational leadership and employee well-being significantly and positively influence employee engagement. Employee engagement exerts the strongest direct effect on employee performance and partially mediates the relationships between transformational leadership, employee well-being, and performance. The results confirm engagement as a central psychological mechanism through which leadership and well-being initiatives translate into performance outcomes. This study contributes to engagement and leadership literature by integrating transformational leadership and employee well-being into a unified mediation model within an SOE context—an institutional setting characterized by bureaucratic governance yet performance-driven service operations. The findings extend engagement theory by positioning employee engagement as a strategic performance-enabling construct in hybrid public–corporate organizations.*

**Keywords:** *Transformational Leadership; Employee Well-Being; Employee Engagement; Employee Performance; State-Owned Enterprise; PLS-SEM*

### Abstrak

Studi ini meneliti peran mediasi keterlibatan karyawan dalam hubungan antara kepemimpinan transformasional, kesejahteraan karyawan, dan kinerja karyawan di dalam anak perusahaan BUMN yang beroperasi di sektor Pengujian, Inspeksi, dan Sertifikasi (TIK). Desain penjelasan kuantitatif digunakan dengan menggunakan pengambilan sampel sensus sebanyak 173 karyawan di Kantor Pusat anak perusahaan BUMN Indonesia. Data dianalisis menggunakan Partial Least Squares Structural Equation Modeling (PLS-SEM), mengikuti prosedur pengukuran dan penilaian model struktural. Kepemimpinan transformasional dan kesejahteraan karyawan secara signifikan dan positif memengaruhi keterlibatan karyawan. Keterlibatan karyawan memberikan pengaruh langsung terkuat pada kinerja karyawan dan sebagian memediasi hubungan antara kepemimpinan transformasional, kesejahteraan karyawan, dan kinerja. Hasil penelitian menegaskan keterlibatan sebagai mekanisme psikologis sentral di mana inisiatif kepemimpinan dan kesejahteraan diterjemahkan menjadi hasil kinerja. Studi ini berkontribusi pada literatur tentang keterlibatan dan kepemimpinan dengan mengintegrasikan kepemimpinan transformasional dan kesejahteraan

karyawan ke dalam model mediasi terpadu dalam konteks BUMN—suatu lingkungan kelembagaan yang dicirikan oleh tata kelola birokrasi namun operasi layanan yang berorientasi pada kinerja. Temuan ini memperluas teori keterlibatan dengan memosisikan keterlibatan karyawan sebagai konstruk strategis yang memungkinkan peningkatan kinerja dalam organisasi publik-korporasi hibrida.

**Kata kunci:** *Kepemimpinan Transformasional; Kesejahteraan Karyawan; Keterlibatan Karyawan; Kinerja Karyawan; Badan Usaha Milik Negara; PLS-SEM*

## INTRODUCTION

Organizational performance sustainability increasingly depends on psychological and relational mechanisms rather than solely structural controls. In service-intensive sectors, employee performance represents a critical competitive determinant (Jiang et al., 2019). Within state-owned enterprise (SOE) subsidiaries, performance pressures coexist with bureaucratic governance structures, creating unique leadership and human resource challenges.

Transformational leadership has been widely acknowledged as a driver of employee motivation and performance (Banks et al., 2018). Simultaneously, employee well-being has emerged as a strategic organizational asset influencing engagement and productivity (Kundi et al., 2021). However, empirical findings remain inconsistent regarding whether leadership and well-being directly enhance performance or operate through psychological mediators.

Employee engagement, conceptualized as a positive, fulfilling, work-related state characterized by vigor, dedication, and absorption (Schaufeli et al., 2002), has been increasingly recognized as a performance-enabling mechanism (Saks, 2019; Breevaart & Bakker, 2018). Yet, limited studies integrate transformational leadership and well-being simultaneously within a single mediation framework, particularly in SOE subsidiaries.

This study addresses three research gaps:

1. The limited integration of leadership and well-being perspectives.
2. The underexplored mediating role of engagement in SOE contexts.
3. The scarcity of empirical evidence from emerging-market SOE subsidiaries.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### 1. Transformational Leadership and Employee Engagement

Transformational leadership, as conceptualized by Bass, refers to a leadership style that transforms employees' values, attitudes, and behaviors through idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Transformational leaders focus not only on achieving organizational targets but also on fostering meaningful work experiences and strong psychological bonds with employees. Such conditions are expected to enhance employee engagement.

**H1: Transformational leadership has a positive effect on employee engagement.**

### 2. Employee Well-Being and Employee Engagement

Employee well-being encompasses physical, psychological, social, and financial aspects that influence the quality of work life. Employees who perceive high levels of well-being tend to experience positive emotions, higher work energy, and stronger

organizational commitment. Therefore, employee well-being is considered a critical antecedent of employee engagement.

**H2: Employee well-being has a positive effect on employee engagement.**

### **3. Employee Engagement and Employee Performance**

Employee engagement represents a positive psychological state characterized by vigor, dedication, and absorption. Engaged employees demonstrate higher levels of concentration, effort, and persistence in completing their tasks, thereby directly contributing to improved performance outcomes.

**H3: Employee engagement has a positive effect on employee performance.**

### **4. The Mediating Role of Employee Engagement**

Transformational leadership and employee well-being may influence performance both directly and indirectly through employee engagement. Engagement functions as a psychological mechanism that links organizational factors to employees' work behaviors.

**H4: Transformational leadership has a positive effect on employee performance.**

**H5: Employee well-being has a positive effect on employee performance.**

**H6: Employee engagement mediates the effect of transformational leadership on employee performance.**

**H7: Employee engagement mediates the effect of employee well-being on employee performance.**

## **RESEARCH METHODS**

This study employed a quantitative research design using a survey approach. The population consisted of employees at the Head Office of PT Sucofindo. A total of 173 respondents participated in the study using a census sampling technique. Data were collected through a structured questionnaire measured on a five-point Likert scale.

Data analysis was conducted using Partial Least Squares-Structural Equation Modeling (PLS-SEM) with SmartPLS software. The measurement model was evaluated through convergent validity, discriminant validity using the Heterotrait-Monotrait Ratio (HTMT), and construct reliability tests. The structural model was assessed using path coefficients,  $R^2$  values, and hypothesis testing through bootstrapping procedures. The use of PLS-SEM is appropriate given the predictive nature of the study and the moderate sample size (Hair et al., 2019).

## **RESEARCH FINDINGS**

The structural model was assessed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The evaluation of path coefficients, t-statistics, and p-values indicates that all hypothesized relationships are statistically significant at the 5% level.

### **1. Direct Effects**

First, transformational leadership has a positive and significant effect on employee engagement ( $\beta = 0.410$ ;  $t = 8.497$ ;  $p < 0.001$ ). This finding suggests that leadership behaviors characterized by inspirational motivation, individualized consideration, intellectual stimulation, and idealized influence substantially enhance employees' psychological attachment and involvement in their work.

Second, employee well-being also demonstrates a positive and significant effect on employee engagement ( $\beta = 0.406$ ;  $t = 7.947$ ;  $p < 0.001$ ). The magnitude of this coefficient is comparable to that of transformational leadership, indicating that well-being functions as a critical organizational resource in fostering employee engagement.

Third, employee engagement exerts the strongest direct influence on employee performance ( $\beta = 0.483$ ;  $t = 8.141$ ;  $p < 0.001$ ). This result confirms that engagement serves as a primary psychological driver of performance outcomes. Employees who experience higher levels of vigor, dedication, and absorption tend to demonstrate superior work effectiveness.

In addition to the indirect mechanism, transformational leadership has a direct positive effect on employee performance ( $\beta = 0.225$ ;  $t = 3.415$ ;  $p = 0.001$ ). Similarly, employee well-being also shows a significant direct effect on performance ( $\beta = 0.228$ ;  $t = 3.312$ ;  $p$

$= 0.001$ ). However, these direct effects are notably smaller than the engagement–performance path coefficient, indicating the presence of a substantial mediating mechanism.

## **2. Mediation Effects**

The mediation analysis reveals that employee engagement partially mediates the relationship between transformational leadership and employee performance. The indirect effect is calculated as:  $0.410 \times 0.483 = 0.198$

Given that both constituent paths are significant ( $p < 0.001$ ), the indirect effect is statistically significant. Because the direct effect of transformational leadership on performance remains significant ( $\beta = 0.225$ ;  $p = 0.001$ ), the mediation is classified as partial mediation.

Similarly, employee engagement partially mediates the relationship between employee well-being and employee performance. The indirect effect is:  $0.406 \times 0.483 = 0.196$

As both paths are significant ( $p < 0.001$ ), the indirect effect is significant. Since the direct effect of well-being on performance also remains significant ( $\beta = 0.228$ ;  $p = 0.001$ ), this relationship is likewise categorized as partial mediation.

These findings indicate that transformational leadership and employee well-being enhance employee performance both directly and indirectly through employee engagement. However, the indirect mechanism through engagement represents a substantial proportion of the total effect, highlighting engagement as the central explanatory pathway.

## **3. Explanatory Power of the Model**

The  $R^2$  value for employee engagement is 0.548, indicating that transformational leadership and employee well-being together explain 54.8% of the variance in employee engagement. This represents a moderate-to-substantial level of explanatory power.

The  $R^2$  value for employee performance is 0.695, suggesting that transformational leadership, employee well-being, and employee engagement collectively explain 69.5% of the variance in employee performance. This indicates strong predictive capability of the structural model within the organizational context examined.

Overall, the structural model demonstrates robust explanatory power and confirms employee engagement as the key mediating mechanism linking leadership and well-being to performance outcomes in SOE subsidiaries operating in service-intensive

environments.

### **3. Discussion**

The structural model results provide compelling evidence that employee engagement functions as a central psychological mechanism linking transformational leadership and employee well-being to employee performance. This section interprets these findings in light of current international literature, clarifies theoretical significance, and contextualizes the results within broader human resource management scholarship.

#### **a. Transformational Leadership and Employee Engagement**

The finding that transformational leadership significantly enhances employee engagement ( $\beta = 0.410$ ;  $p < 0.001$ ) aligns with recent meta-analytic evidence demonstrating that transformational leaders inspire higher levels of engagement among employees by fostering meaningful work experiences, autonomy, and developmental support (Banks et al., 2018). Specifically, transformational leadership constructs such as individualized consideration and inspirational motivation create favorable psychological conditions for employees to invest themselves cognitively and emotionally in their roles (Avolio & Yammarino, 2017).

This result also echoes Breevaart and Bakker's (2018) argument that leadership behaviors act as job resources that stimulate engagement by buffering job demands and proactively reinforcing employees' sense of efficacy. In service-intensive settings such as SOE subsidiaries, where work outcomes require sustained discretionary effort and high relational commitment, transformational leadership provides the motivational scaffolding that intensifies engagement (Saks, 2019).

#### **b. Employee Well-Being and Employee Engagement**

The strong positive effect of employee well-being on engagement ( $\beta = 0.406$ ;  $p < 0.001$ ) supports the propositions of the Job Demands-Resources (JD-R) model, which positions well-being as a critical personal resource that energizes employees and fosters higher engagement (Bakker & Demerouti, 2017). Empirical research increasingly demonstrates that multidimensional well-being—including psychological, emotional, and social aspects—is positively associated with engagement (Kundi et al., 2021; Shuck & Reio, 2014).

In line with these perspectives, the present findings suggest that employees who perceive a high level of well-being are more likely to experience vigor and dedication, which in turn intensify their involvement and absorption in their work tasks. This underscores the need for organizations to invest not only in physical or material well-being initiatives but also in psychological and social support structures that reinforce employees' overall life quality (Grawitch et al., 2015).

#### **c. Employee Engagement as a Predictor of Performance**

Employee engagement exerts the strongest direct effect on performance ( $\beta = 0.483$ ;  $p < 0.001$ ), a finding consistent with international research establishing engagement as a key antecedent of organizational performance outcomes (Saks, 2019; Christian et al., 2011). The positive engagement–performance relationship reinforces the notion that engaged employees expend higher discretionary effort, maintain persistence in challenging tasks, and demonstrate proactive behaviors that enhance task effectiveness (Breevaart & Bakker, 2018).

This result also aligns with results from studies in service industries, where engagement has been shown to mediate the effect of supportive work practices on performance and customer-oriented behaviors (Wefald & Downey, 2009; Xanthopoulou et al., 2009). The strong empirical linkage in this study highlights the pivotal role of engagement as a performance driver in knowledge-intensive and service-oriented organizational contexts.

#### **d. Partial Mediation of Engagement**

The partial mediating role of engagement in the relationships between both transformational leadership and performance and well-being and performance extends our theoretical understanding of psychological mechanisms in organizational behavior. While transformational leadership and well-being have direct effects on performance, a significant portion of their influence operates through engagement, indicating that leadership and well-being initiatives are more effective when they activate employees' psychological states.

These results resonate with Saks (2019) and Breevaart and Bakker (2018), who argued that psychological mechanisms such as engagement act as crucial conduits translating organizational inputs (e.g., leadership support, well-being resources) into desired outcomes. The partial nature of the mediation suggests that while leadership and well-being have independent influences on performance, their full potential is realized when employee engagement is concurrently elevated.

#### **e. Theoretical Integration**

By empirically validating the mediating role of engagement and demonstrating substantive direct and indirect effects of transformational leadership and well-being on performance, this study contributes to a more integrative understanding of work psychology. It bridges two major conceptual streams—leadership research and well-being research—within a unified engagement-centered framework. This integration advances engagement theory (Schaufeli et al., 2002; Saks, 2019) by specifying how contextual and contextualized resources mobilize employee potential toward performance outcomes.

Furthermore, these findings align with JD-R theory by reinforcing that job resources (leadership support, well-being) are significant drivers of engagement and downstream performance (Bakker & Demerouti, 2017). In doing so, this research extends current models of work engagement toward a more comprehensive explanatory mechanism suitable for service and public sector organizations.

#### **f. Contextual Contribution: SOE Subsidiaries**

The focus on a state-owned enterprise (SOE) subsidiary contributes novel insights into organizational contexts that are less represented in prior engagement and leadership scholarship. SOEs often balance bureaucratic governance demands with performance-oriented objectives, creating unique motivational challenges. The present findings illustrate that relational and psychological resources such as leadership style and well-being are highly relevant in such hybrid governance environments, where structural controls alone may be insufficient to sustain high performance.

### 3. Results

This study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate both the measurement model and the structural model. The analysis was conducted using SmartPLS with bootstrapping procedures to assess the significance of path coefficients.

#### a. Measurement Model Assessment

The measurement model was evaluated in terms of internal consistency reliability, convergent validity, and discriminant validity.

- **Internal Consistency Reliability**

All constructs demonstrated satisfactory internal consistency. Composite Reliability (CR) values exceeded the recommended threshold of 0.70, indicating adequate reliability. Cronbach's alpha values were also above 0.70, confirming internal consistency across measurement items.

- **Convergent Validity**

Convergent validity was assessed using Average Variance Extracted (AVE). All constructs achieved AVE values greater than 0.50, demonstrating that the latent variables explained more than half of the variance of their respective indicators. Outer loadings of indicators were above the acceptable threshold of 0.70, and all were statistically significant ( $p < 0.001$ ).

- **Discriminant Validity**

Discriminant validity was evaluated using the Heterotrait–Monotrait Ratio (HTMT). All HTMT values were below the conservative threshold of 0.90, indicating that the constructs were empirically distinct. Overall, the measurement model met the required criteria for reliability and validity, allowing for the evaluation of the structural model.

#### b. Structural Model Assessment

The structural model was evaluated using path coefficients ( $\beta$ ), t-statistics, p-values, and coefficients of determination ( $R^2$ ).

- **Direct Effects**

The results indicate that all hypothesized direct relationships are statistically significant.

**Transformational Leadership → Employee Engagement**

( $\beta = 0.410$ ;  $t = 8.497$ ;  $p < 0.001$ )

Transformational leadership significantly enhances employee engagement.

**Employee Well-Being → Employee Engagement**

( $\beta = 0.406$ ;  $t = 7.947$ ;  $p < 0.001$ )

Employee well-being significantly increases employee engagement.

**Employee Engagement → Employee Performance**

( $\beta = 0.483$ ;  $t = 8.141$ ;  $p < 0.001$ )

Employee engagement exerts the strongest influence on employee performance.

**Transformational Leadership → Employee Performance**

( $\beta = 0.225$ ;  $t = 3.415$ ;  $p = 0.001$ )

Transformational leadership directly improves employee performance.

**Employee Well-Being → Employee Performance**

( $\beta = 0.228$ ;  $t = 3.312$ ;  $p = 0.001$ )

Employee well-being also directly enhances employee performance. These results support all proposed direct-effect hypotheses.

**c. Mediation Analysis**

Mediation effects were examined using bootstrapping procedures.

The indirect effect of transformational leadership on employee performance through employee engagement is:  $0.410 \times 0.483 = 0.198$ . Because both constituent paths are statistically significant ( $p < 0.001$ ), the indirect effect is significant. Since the direct effect remains significant ( $\beta = 0.225$ ;  $p = 0.001$ ), employee engagement partially mediates this relationship. Similarly, the indirect effect of employee well-being on employee performance through employee engagement is:  $0.406 \times 0.483 = 0.196$ . This indirect effect is also significant, and because the direct path remains significant ( $\beta = 0.228$ ;  $p = 0.001$ ), partial mediation is confirmed.

**d. Coefficient of Determination ( $R^2$ )**

The model demonstrates substantial explanatory power:

$R^2$  for Employee Engagement = 0.548

Transformational leadership and employee well-being explain 54.8% of the variance in employee engagement.

$R^2$  for Employee Performance = 0.695

Transformational leadership, employee well-being, and employee engagement collectively explain 69.5% of the variance in employee performance.

According to established benchmarks, these values indicate moderate-to-strong predictive capability of the structural model.

**f. Summary of Hypothesis Testing**

All hypothesized relationships are supported:

H1: Supported H2: Supported H3: Supported H4: Supported H5: Supported

Employee engagement serves as a significant partial mediator in the structural model..

**CONCLUSION**

This study provides empirical evidence that employee engagement serves as a central psychological mechanism linking transformational leadership and employee well-being to employee performance within a state-owned enterprise (SOE) subsidiary operating in the service sector.

The findings demonstrate that transformational leadership and employee well-being significantly enhance employee engagement. In turn, employee engagement exerts the strongest influence on employee performance. Although transformational leadership and well-being also have direct effects on performance, a substantial proportion of their impact operates indirectly through engagement, confirming partial mediation.

The structural model exhibits strong explanatory power, accounting for 69.5% of the variance in employee performance. These results reinforce the theoretical proposition that leadership behaviors and well-being initiatives translate into tangible performance outcomes primarily when they activate employees' psychological energy, dedication, and absorption.

Overall, this study advances engagement-centered human resource management

by empirically validating employee engagement as a performance-enabling construct in hybrid public–corporate organizational settings.

## RECOMMENDATIONS

Based on the findings, the following recommendations are proposed:

- **Strategic Alignment:** Align leadership practices, well-being policies, and performance management systems within a coherent engagement-centered framework.
- **Periodic Engagement Assessment:** Conduct regular employee engagement surveys to monitor psychological climate and detect early warning signals of performance decline.
- **Leadership Accountability:** Incorporate engagement outcomes into leadership evaluation criteria to reinforce accountability for people-centered management.
- **Cultural Reinforcement:** Promote an organizational culture that values recognition, open communication, and participatory decision-making to sustain long-term engagement.

## PRACTICAL IMPLICATIONS

The findings offer several important practical implications for SOE subsidiaries and service-based organizations:

### 1) Institutionalizing Engagement-Based HR Strategy

Organizations should move beyond compliance-oriented HR systems and adopt engagement-based management approaches. Since engagement exerts the strongest influence on performance, it should be positioned as a strategic performance driver rather than a secondary HR outcome.

### 2) Leadership Development Programs

Given the significant impact of transformational leadership on engagement, organizations should prioritize leadership development initiatives that enhance:

- Inspirational motivation
- Individualized consideration
- Intellectual stimulation
- Ethical role modeling

Leadership training should emphasize relational and motivational competencies, particularly in bureaucratic or semi-public organizational environments.

### 3) Comprehensive Well-Being Programs

Employee well-being significantly enhances engagement and performance. Therefore, organizations should implement multidimensional well-being strategies that include:

- Psychological safety
- Work-life balance policies
- Mental health support systems
- Fair compensation and recognition

Well-being initiatives should be embedded within organizational culture rather than treated as short-term welfare programs.

### 4) Integrating Engagement Metrics into Performance Systems

Since engagement mediates performance, organizations should incorporate

engagement indicators into performance monitoring systems. Leading indicators such as engagement scores may provide earlier and more actionable insights than lagging productivity metrics.

## LIMITATIONS AND FUTURE RESEARCH

Despite its contributions, this study has several limitations that should be acknowledged.

### 1) Single-Organization Context

The research was conducted within a single SOE subsidiary, which may limit generalizability. Future studies should replicate the model across multiple SOEs or compare public and private sector organizations to assess contextual variations.

### 2) Cross-Sectional Design

The use of cross-sectional data restricts causal inference. Longitudinal research designs are recommended to examine how engagement evolves over time and whether its mediating role strengthens or weakens under changing organizational conditions.

### 3) Self-Reported Measures

All constructs were measured using self-reported questionnaires, which may introduce common method bias. Future research could incorporate multi-source data, such as supervisor-rated performance or objective productivity indicators.

### 4) Limited Scope of Predictors

This study focuses on transformational leadership and employee well-being as antecedents of engagement. Future research may extend the model by incorporating:

- Organizational culture
- Psychological safety
- Digital transformation intensity
- Perceived organizational support
- Generational differences

Additionally, moderating variables such as organizational climate or job complexity may provide further insights into boundary conditions of the engagement–performance relationship.

### 5) Cross-Country Comparative Studies

Given the unique governance structure of SOEs in emerging economies, comparative cross-country research may enrich understanding of how institutional environments shape engagement dynamics.

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