

ANALYSIS OF THE INFLUENCE OF PSYCHOLOGICAL EMPOWERMENT, RELATIONAL PSYCHOLOGICAL CONTRACT, AND PAY SATISFACTION ON TURNOVER INTENTION MEDIATED BY WORK ENGAGEMENT AMONG GEN Z EMPLOYEES

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Abstract

The tendency of generation Z, which is the newest group in the workforce, to leave their jobs is significant both globally and in Indonesia. This research aims to reveal the impact of salary satisfaction, psychological empowerment, and relational psychological contract on turnover intention, with work engagement as a mediator. Using a quantitative research design that adopts a cross-sectional approach, data was obtained from 220 generation Z employees. Data analysis was carried out using Partial Least Squares Structural Equation Modeling (PLS-SEM). The research results show that there is a direct influence of psychological empowerment on turnover intention, while the relational psychological contract and salary satisfaction do not have a direct influence. Additionally, work engagement was identified as a mediating factor in the relationship between psychological empowerment, relational psychological contract, pay satisfaction, and turnover intention.

Keywords: Turnover Intention, Pay Satisfaction, Psychological Empowerment, Relational Psychological Contract, Work Engagement, Generation Z

Introduction

Recruiting and retaining the best talent is very important for a company's competitive advantage (Zahari & Puteh, 2023). Therefore, a high turnover rate is not something to be liked because it requires large costs (Zahari & Puteh, 2023). Talent Management and HR Magazine explains that for entry-level employees, it costs between 30 to 50 percent of their annual salary to replace them (Borysenko, 2015). For mid-level employees, the cost is above 150 percent and for highly specialized employees, it costs more than 400 percent of their annual salary to replace them (Borysenko, 2015).

Employee turnover has a rampant direct impact on the costs and performance of an organization (Al-Suraihi, Samikon, & Ibrahim, 2021). Apart from having an impact on increasing costs, this phenomenon also has other indirect impacts, for example on reducing efficiency and performance, especially for workers concerned before leaving their jobs and new workers before they really master the job (Saleem & Qamar, 2017). Not only with the aim of avoiding increased costs, studying employee turnover rates is also important to help in planning and forming future human resource strategies (Serenko, 2024).

However, in reality, based on a survey conducted by Michael Page in 2022 which was republished in Katadata, as many as 74% of workers in Asia Pacific plan to resign from their workplace within the next six months, while for Indonesia itself the percentage is higher, namely 84 %. In addition, based on the 2022 National Labor Force Survey

(Sarkernas), it is known that the percentage of the workforce who are in the 15-34 year age range and left their previous jobs is 20.5%, an increase from the previous year which was only 19.1%. This figure is also the highest when compared with other age groups. It is known that internal reasons dominate the decision to change jobs made by workers in this age range. The internal reasons referred to are dissatisfaction with salary and incompatibility with the work environment (Central Statistics Agency, 2023).

HR practitioners have their own challenges in retaining young talent, because the younger generation tends to easily leave their workplace for various reasons (Oladapo, 2016). The younger generation in the current labor market are those who are included in Generation Z, where Maloni, Hiatt, and Campbell (2019) group them based on births from 1995-2012. In Indonesia, based on data from the National Statistics Agency in 2022, the workforce with an age range of 20 years to 29 years who are classified as Generation Z is 32,486,898. This number represents 22.55% of the total workforce in Indonesia. This suggests that it is important to understand how internal factors related to generation Z employee satisfaction can influence their intention to leave the company.

Previous research explains that employees' intention to remain or leave the organization (turnover intention) is the final phase in the process of deciding to voluntarily withdraw (Lambert, Lynne & Barton, 2001). Turnover intention is defined as a mental decision that an individual has regarding the choice to continue or leave a job. According to Sandhya and Sulphrey (2021) a better way to overcome turnover is to find the cause, so this research will focus on the intention of turnover itself. Previous studies have found that various individual, organizational, and environmental characteristics were found to predict turnover intention (Harhara, Singh, & Hussain 2015; Thomas & Lucas, 2019).

Sandhya and Sulphrey (2021) found that work engagement has a negative and significant influence on turnover intention among IT employees in industry. High work involvement actually leads to a full investment of emotional energy which will ultimately provide better performance (Lai et al., 2020). Engagement was found to mediate the relationship between empowering leadership and intention to resign (Van Schalkwyk et al., 2010). In recent research, Abela and Debono (2019) found that lack of employee involvement is one of the factors that can trigger the intention to leave the company. In this research, work engagement is an important variable to research because there is research which states that the younger generation (Gen Z) has lower engagement than the older generation (Haley et al., 2013).

Pay satisfaction refers to the positive and negative feelings that employees feel about the compensation they receive (Wu & Lin, 2018). The level of employee engagement correlates with their perception of the rewards they receive after completing a task, as a result, when employees perceive higher benefits from task performance they will tend to be more involved in their work (Gulyani & Sharma, 2018). A proper compensation system is essential for organizations to achieve their goals, underpaid employees will not be able to meet those goals (Aboramadan et al., 2020). Research shows that pay satisfaction creates a sense of responsibility among employees which leads to work engagement (Kulikowski, 2018). Employee incentives and rewards are considered practices that increase motivation and positively influence work engagement (Goyal & Patwardhan, 2021).

Akhavan, Abzari, Nasr, and Fathi (2017) stated that Gen Z views compensation in a different way from previous generations, where they prioritize compensation that is in line with the values they believe in and in accordance with the valuable contributions

they make. Apart from that, pay satisfaction is one of the biggest causes underlying employee decisions to resign based on the 2022 national workforce survey, so pay satisfaction is one of the variables tested in this research.

Psychological empowerment is one of the HR strategy designs that is carried out consciously and deliberately to get the best results from employees (Li et al., 2015). Empowerment can facilitate employees to use their individual and collective talents to achieve individual goals and company goals, while also allowing organizations to respond quickly to change (Sandhya & Sulphrey, 2021). The need to empower employees in order to reduce intentions to leave the company has also been identified by (Sandhya & Sulphrey, 2021). observed that psychological empowerment was positively related to employee engagement. Empowerment is an important variable to observe in the younger generation (Gen Z), because this generation is considered to have less experience, therefore they realize that they have a need for organizations and leaders who can increase their skills and strengths (Nastasia et al., 2023).

Psychological contract is defined by Rousseau and Schalk as an individual's belief in reciprocal obligations between that person and other parties such as employers (Liao et al., 2017). Several studies have investigated the influence of the psychological contract on employee engagement (Malik & Khalid, 2016; Parzefall & Hakanen 2010; Sharma & Garg, 2017; Soares & Mosquera, 2019). One of the studies by Malik & Khalid (2016) found that if employees feel a violation of their psychological contract, this will result in low work engagement and higher turnover intention. A study by Sharma and Garg (2017) found that the psychological contract is an important driver of employee engagement among IT employees.

The psychological contract consists of two dimensions, namely transactional and relational, however research conducted by Soares and Mosquera (2019) found that only the psychological dimension is long term and provides development that is significantly related to work engagement where the dimension in question is the relational psychological contract. Meanwhile, the transactional dimension which is short term and measured economically does not have this impact. This research is also in line with research from Pohl, Bertrand, and Ergen (2016) where this research examines psychological contracts through different dimensions, namely economic, developmental and socio-emotional and shows the results that only the developmental dimension produces a positive relationship with performance.

Apart from that, other research only uses relational contracts as a dimension that reflects psychological contracts, for example in research from Rahman, Rehman, Imran, Aslam (2017) which only links relational psychological contracts with work involvement. The same thing was also found in research by Nguyen et al., (2021) where relational contracts can increase work engagement and have an impact on satisfaction and performance. Supported by this foundation, this research will be conducted by focusing on relational psychological contracts as an independent variable.

The psychological contract is one of the things tested in this research because as we know, Gen Z are people who have been exposed to digital technology and are often called tech savvy, this causes a shift in the formation of the psychological contract (Coetzee & Deas, 2021) . Digitalization replaces social interactions related to topics that are important for perfecting a person's psychological contract. This also reduces communication and negotiations around the psychological contract. which eliminates the opportunity for employees to explore and probe their psychological contracts in interactions. There is less information exchange between HR staff and employees.

Reduced social interaction affects the socioemotional aspects of the psychological contract, especially the relational psychological contract (Deas, 2019). This research aims to reveal the impact of salary satisfaction, psychological empowerment, and relational psychological contract on turnover intention, with work engagement as a mediator.

Research methods

The approach used in this research is a quantitative approach with a deductive thinking framework. Deductive here means that the researcher looks at things that are general in nature as antecedents, until they reach things that are specific and more particular. The data used in this research is primary data. Primary data in this research was obtained by collecting information through questionnaires from employees who belong to generation Z (born between 1995 – 2006) and work in companies whose main basis is technology or companies that use applications or websites as a source of revenue stream. Next, the employee concerned fills out a questionnaire using the self-administered survey method. Self-administered survey means the questionnaire is filled in directly by the respondent without the help of a researcher.

The population in this study were all private employees aged 18 to 29 years with a minimum length of service of 1 year and domiciled in the Jabodetabek area. Respondents will also focus on those who work in industries whose main basis is technology or use applications or websites as a source of company income. This research uses a convenience sampling technique, which is the easiest technique, where more respondents participate in the survey and allows researchers to get a larger sample size in a short time (Malhotra, 2010).

Results and Discussion

Causal Relationship Analysis

Causal relationship analysis is carried out to see the significance of the influence of one variable on other variables. Based on Malhotra (2010), it is explained that for one-tail research the required t-values are ≥ 1.645 and the p-value is less than 0.05.

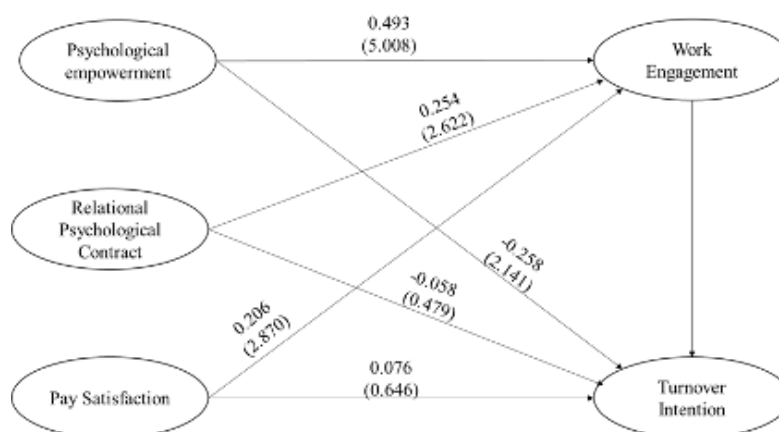


Figure 1. Results of analysis of t-values and path coefficients between variables

Source: Researcher Process (2024)

The image above summarizes the t values and path coefficient between variables. From the image it can be seen that the relationship between relational psychological

contracts is not significant on turnover intention with t-values below 1.645. The same thing also happened to the pay satisfaction variable which was also not significant to the turnover intention variable.

Table 1. Direct Effect Test Results

Connection	Path Coefficient	t-values	p-values
<i>Psychological Empowerment -> Turnover Intention</i>	-0.258	2,149	0.016
<i>Relational Psychological Contract-> Turnover Intention</i>	-0.058	0.486	0.313
<i>Pay Satisfaction -> Turnover Intention</i>	0.076	0.653	0.257
<i>Work Engagement-> Turnover Intention</i>	-0.424	3,392	0,000
<i>Psychological Empowerment -> Work Engagement</i>	0.493	5,028	0,000
<i>Relational Psychological Contract -> Work Engagement</i>	0.254	2,646	0.004
<i>Pay Satisfaction -> Work Engagement</i>	0.206	2,880	0.002

From the seven direct relationships above, as previously mentioned, the relationship between relational psychological contract on turnover intention and pay satisfaction on turnover intention is not significant with t-values of 0.486 and 0.653. The results of smart pls are different from lisrel where the t-values do not show the direction of the relationship between these variables, but the direction of the relationship is seen in the path coefficient value.

Apart from direct relationships, analysis was also carried out on indirect relationships through the mediation of work engagement, the results of which have been summarized in the table below where the results show significant values with t-values above 1.645 in all three relationships.

Table 2. Indirect Effect Test Results

Connection	Path Coefficient	t-values	p-values
<i>Psychological Empowerment -> Work Engagement -> Turnover Intention</i>	-0.209	2,678	0.004
<i>Relational Psychological Contract -> Work Engagement -> Turnover Intention</i>	-0.108	1,944	0.026
<i>Pay Satisfaction -> Work Engagement -> Turnover Intention</i>	-0.087	2,653	0.004

Source: Researcher Process (2024)

If you refer to the explanation of Hair et al., (2019), the mediation that occurs in the table above is known as partial mediation and full mediation. Partial mediation was found in the relationship between psychological empowerment and turnover intention where the t-values increased from 2.149 to 2.678. Full mediation was found in the relationship between pay satisfaction and relational psychological empowerment with turnover intention, which was initially insignificant with t-values below 1.645 and became significant with work engagement as mediation. Next, the total effect of each independent relationship on the dependent will be displayed in table 3 below.

Table 3. Total Effect Test Results

Track	Direct Effects	Track	Indirect Effects	Total Effect
Psychological Empowerment -> Turnover Intention	-0.258	Psychological Empowerment -> Work Engagement -> Turnover Intention	-0.209	-0.258+ (-0.209) = - 0.467
Relational Psychological Contract-> Turnover Intention	-0.058	Relational Psychological Contract -> Work Engagement -> Turnover Intention	-0.108	-0.058+ (-0.108) = - 0.166
Pay Satisfaction -> Work Engagement	0.076	Pay Satisfaction -> Work Engagement -> Turnover Intention	-0.087	0.076+(-0.087) = - 0.011

Source: Researcher Process (2024)

Research Hypothesis Analysis

Based on the results that have been described in causal relationships, each hypothesis that has been proposed will be discussed next. This research contains 5 variables in it which then form 10 hypotheses that must be proven.

Table 4. Hypothesis Testing Results

Hypothesis	Statement	Results
H1	Psychological empowermentnegative and significant effect on turnover intention	Data supports the hypothesis
H2	Relational psychological contractnegative and significant effect on turnover intention	Data do not support the hypothesis
H3	Pay satisfactionnegative and significant effect on turnover intention	Data do not support the hypothesis
H4	Work engagementnegative and significant effect on turnover intention	Data supports the hypothesis
H5	Psychological empowermenthas a positive and significant effect on work engagement.	Data supports the hypothesis
H6	Relational psychological contracthas a positive and significant effect on work engagement	Data supports the hypothesis
H7	Pay satisfactionhas a positive and significant effect on work engagement	Data supports the hypothesis
H8	Work engagementmediates the relationship between psychological empowerment and turnover intention	Data supports the hypothesis
H9	Work engagementmediates the relationship between relational psychological contract and turnover intention	Data supports the hypothesis
H10	Work engagementmediates the relationship between pay satisfaction and turnover intention	Data supports the hypothesis

Source: Researcher Process (2024)

Based on the results in table 4, the researcher will then carry out an in-depth analysis of each hypothesis as follows:

Psychological empowerment has a negative and significant effect on turnover intention

Based on table 4, it can be seen that there is a direct influence of psychological empowerment on turnover intention with a path coefficient value of -0.258 and a t-value of 2.149 which exceeds the critical t-value of 1.645. Apart from that, this relationship has a p-value of 0.016 or smaller than 0.05 so it meets the significance requirements. Thus, increasing psychological empowerment will reduce turnover intention by 25.8% and in this case the hypothesis is accepted.

This is in line with research conducted by Lan and Chong, (2015) which states that employees who feel psychologically empowered will become more confident, energetic, active and responsible for their work so that this will also reduce their intention to leave the company. A similar thing was also found by Prati and Zani, (2016) who stated that the empowerment felt by health professionals will make them stay in the organization for a long time.

Relational psychological contracts have a negative and significant effect on turnover intention

From table 4 it can be seen that the relationship between relational psychological contract and turnover intention has a t-value of 0.486 and a p-value of 0.313. These results indicate that the hypothesis proposed regarding the relationship between relational psychological contracts and turnover intention is rejected. This means that there is no significant and negative relationship between these two variables.

This finding is not in line with Wang et al., (2017) who stated that there is a significant relationship between relational psychological contracts and turnover intention. Another finding that is not in line with this research is that put forward by Liao et al., (2017) which states that when employees' psychological contracts are fulfilled they will remain in the organization for a long time. However, this research is in line with what was found by Saputra and Heryjanto (2021), who in their research also found that there is no negative and significant relationship between relational psychological contracts and turnover intention unless there is mediation between the two.

Pay satisfaction has a negative and significant effect on turnover intention

From table 4 regarding the direct relationship between pay satisfaction and turnover intention, a t-value of 0.653 is obtained, which is below the critical t-value for research where the critical t-value is 1.645. If we look at the p-value, the value is also below the specified value, namely 0.257, so it can be concluded that this hypothesis is rejected.

This finding is not in line with research conducted by Jung and Yoon (2015) where in his research it was found that employee dissatisfaction with salary significantly influenced their chances of leaving their job with the strongest predictor being knowledge of the salary structure. Employee satisfaction increases when they know that the salary determination process is carried out fairly. Another finding from Mohamed et al., (2017) also states that an employee's sense of satisfaction with the salary he receives is related in a curvilinear manner to his intention to leave the company. So in this case, the level of satisfaction they feel with their salary being too high or too low can have a different

impact on their intention to leave. In this research, it is stated that benefit is the dimension with the greatest influence.

The different findings in this discovery are because Gen Z's main priority is not salary, but there are things that are considered more important such as organizational culture, balance between work and life, and career development opportunities provided by the organization. This is in line with what was found by Barhate and Dirani (2021) where in their research they stated that Gen Z does not consider salary as a factor that contributes to stability. This could be due to their young age.

Work engagement has a negative and significant effect on turnover intention

From table 4 regarding the direct relationship between work engagement and turnover intention, significant results were obtained with a t-value of 3.392 and a p-value of 0.000. It is known that this relationship has a path coefficient value of 0.424, so here it can be interpreted that increasing work engagement will reduce a generation Z employee's intention to leave the company by 42.4%.

The results found are in line with previous research presented by Abela and Debono (2019) where in their research it was stated that the presence and high level of involvement of an employee will reduce their intention to leave the company. Kaur and Randhawa (2021) also stated that involvement will increase productivity, attendance and errors at work which will lead to a willingness to remain at the company.

If we look at the most influential dimensions, it can be seen that vigor has the largest loading factor with WE03 the indicator with the largest loading factor in that dimension.

Psychological empowerment has a positive and significant effect on work engagement

Based on table 4, it is known that the relationship between psychological empowerment and work engagement is significant with a t-value and p-value of 5.028 and 0.000. Next, if you look at the path coefficient value of this relationship, the value is 0.493, meaning that increasing psychological empowerment will increase work engagement by 49.3%.

The results of this research are in line with research by Sandhya and Sulphrey (2021) which also explains that with empowerment, an employee can maximize their individual and collective talents in a positive way, which in the end will have a good impact on the organization. Then in other research from Alhajaj and Ahmad (2023) found that empowerment can significantly increase a person's work involvement through the dimension of perceived control where employees who feel empowerment tend to feel they have great control over their work so that their motivation at work will also increase.

In contrast to the findings by Alhajaj and Ahmad (2021), in this research, mature internalization of company goals through open communication is actually the indicator that best reflects the empowerment felt by an employee. Especially if employees feel included in planning to achieve the company's goals.

Relational psychological contracts have a positive and significant effect on work engagement

Based on the test results in table 4, it can be seen that the relationship between relational psychological contract and work engagement has a t-value of 2.646. This value is greater than 1.645 as the critical t, so it can be concluded that the proposed hypothesis is accepted. Other information from the table shows that the p-value of this relationship

is 0.004 (smaller than 0.5) and the path coefficient is 0.254, which means that the increase in relational psychological contracts felt by generation Z employees will increase work engagement by 25.4% .

This finding is in line with research conducted by Pohl et al., (2016) which found that for military personnel the stability component indicated by items to measure relational psychological contracts increased engagement among military personnel.

Pay satisfaction has a positive and significant effect on work engagement

Based on table 4 which displays the direct relationship between pay satisfaction and work engagement, the t-value and p-value are 2.880 and 0.002, which indicates a significant relationship between the two. Apart from that, it is known that these two variables have a path coefficient value of 0.206, which means that increasing salary satisfaction will increase the work engagement of a generation Z worker by 20.6%.

This positive significant research result is in line with research proposed by Jung and Yoon (2015) which states that job satisfaction significantly influences work engagement where employees consider benefits (the most influential dimension) as a form of support from the company which, if the number increases, will increase positive emotions in the form of a sense of involvement. Jung and Yoon (2015) also say that with fewer and fewer people adopting the principle of lifelong employment, benefits can be the most effective way to increase a person's involvement. On the other hand, this research is not in line with what was found by Memon et al., (2021) who found that salary satisfaction did not affect an employee's work engagement. This is allegedly due to changes in the values of the younger generation of workers where financial motives are no longer the main concern of professional employees. But employee priorities have shifted to job characteristics that are more rewarding and offer a better life balance.

Work engagement mediates the relationship between psychological empowerment and turnover intention

Judging from table 4, work engagement significantly mediates the relationship between psychological empowerment and turnover intention where this relationship has a t-value and p-value of 2.678 and 0.004. Apart from that, it is also known that the path coefficient value of this relationship is -0.209, which means that increasing psychological empowerment here will reduce a person's intention to leave their job by 20.9%. Apart from that, it is known that the resulting mediation is partial mediation where the presence of work engagement as a mediating variable changes the t value which was previously 2.149 (significant) to 2.678 (significant).

The results of this research are in line with those stated by Sandhya and Sulphrey (2019) in their research which states that there is a negative and significant relationship between the empowerment felt by IT workers and their intention to resign which is mediated by work involvement. This means that the empowerment felt by IT workers increases work involvement which ultimately reduces the intention to withdraw from the company. Similar findings are also found in research by Alhajaj and Ahmad (2023) which states that work engagement partially mediates the relationship between empowerment and intention to resign.

Work engagement mediates the relationship between relational psychological contract and turnover intention

The mediating role of work engagement in the relationship between relational psychological contracts and turnover intention is proven in this research. Relational psychological contracts have a significant and negative relationship with turnover intention indirectly through mediation from work engagement according to the results listed in table 4.27, where the t-value and p-value of the indirect relationship are 1.944 and 0.026. In the research, it was also found that the path coefficient value of the relationship was 0.108, which means that increasing the relational psychological contract through work engagement will reduce a generation Z employee's intention to leave the company by 10.8%.

If we compare the t-value through the direct effect between relational psychological contract and turnover intention, it produces an insignificant value, namely 0.486, but through the indirect effect with the mediation of work engagement, the relationship between the two becomes significant. From these results it can be concluded that the mediation of work engagement in the relationship between the two is full mediation. This means that without a person's sense of involvement in their workplace, even a strong relational contract will not influence a person's intention to leave their workplace.

This research is in line with what was found by Soares and Mosquera (2019) which stated that organizations that focus on maintaining the relational psychological contract of their employees will increase their employees' sense of involvement. This attachment through psychological contracts and involvement will give rise to employee commitment to the organization so that it will suppress their intention to leave the organization. Other findings put forward by Phoung et al., (2021) also state that relational contracts have a strong influence on employee engagement which will increase job satisfaction and suppress intentions to leave the company. In both studies, it was seen that work engagement significantly mediated the relationship between relational psychological contracts and job satisfaction, which ultimately reduced employees' intentions to leave the company.

Work engagement mediates the relationship between pay satisfaction and turnover intention

This research proves that work engagement significantly mediates the relationship between pay satisfaction and turnover intention, where based on table 4, this relationship has a t-value of 2.653 and a p-value of 0.004. Apart from that, this indirect relationship is known to have a path coefficient value of -0.087, which means that if an employee is satisfied with the salary he receives, his intention to leave the organization will decrease by 8.7% provided that his satisfaction with his salary is accompanied by an increase in his involvement in work. .

If we compare the relationship between pay satisfaction and turnover intention directly and indirectly, it can be seen that the mediation of work engagement in the relationship between the two is full mediation because indirectly, salary satisfaction does not significantly influence the intention to withdraw, but indirectly with mediation from work engagement relationship becomes significant. In table 4 it is known that the direct relationship between pay satisfaction and turnover intention has a t-value of 0.653 (not significant), but indirectly through the mediation of work engagement the t-value is 2.653 (significant).

Conclusion

The results of this research found that psychological empowerment has a positive and significant effect on turnover intention in generation Z employees, meaning that the greater the psychological empowerment felt by generation Z, the less likely the employee's intention to leave the organization. Different things were found in two other variables where pay satisfaction and relational psychological contract were proven to have no direct influence on the employee's intention to withdraw from the company. Work engagement can mediate the relationship between psychological empowerment, relational psychological contract, and pay satisfaction on turnover intention. In the relationship between psychological empowerment and turnover intention, it is proven that work engagement has a partial mediating effect, meaning that the influence of psychological empowerment will be stronger in reducing turnover intention if the empowerment results in work engagement. In contrast to the other two variables, work engagement provides a total mediating effect, where without work involvement the relational psychological contract and salary satisfaction do not have a significant effect on the intention to resign, but if the relational psychological contract and salary satisfaction increase the employee's work involvement then the intention to resignations are reduced. Overall, the relationship between psychological empowerment, relational psychological contract and salary satisfaction with the mediation of work involvement will have a negative and significant effect on employees' intention to resign.

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