

The Psychological Contract of Generation Z: Does HR Communication Meet the Legal and Moral Expectations of Young Employees?

Priyanto¹, Liling Listyawati², Damajanti Sri Lestari³, Galuh ajeng Ayuningtyas⁴, Dedi Setyawan⁵

drpriyanto@unitomo.co.id¹, liling.listyawati@unitomo.ac.id²,
damajanti.sri@unitomo.ac.id³, galuhajeng@unitomo.ac.id⁴,
dedi.setyawan@unitomo.ac.id⁵

^{1,2,3,4,5}Dr. Soetomo University, Surabaya, Indonesia

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Abstract

The entry of Generation Z into the workforce has reshaped organizational expectations surrounding Human Resource (HR) communication, emphasizing not only legal compliance but also ethical alignment. This study investigates how HR communication practices – both legal and moral – impact psychological contract fulfillment (PCF) and key employee outcomes among Generation Z in Indonesia. Employing a quantitative, correlational-explanatory design, data were collected via a structured online survey from 250 Gen Z employees across sectors and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that both legal and moral fulfillment in HR communication significantly enhance PCF, which in turn positively influences job satisfaction and organizational commitment, while reducing intention to leave. Furthermore, PCF mediates the relationship between HR communication and these outcomes, confirming its pivotal role in shaping employee attitudes and behaviors. These results align with Psychological Contract Theory and Expectancy Theory, demonstrating that for Generation Z, employment relationships are grounded as much in values and transparency as in formal policy. The study contributes to the limited Southeast Asian literature on psychological contracts and offers actionable insights for HR practitioners to build value-oriented communication strategies that foster engagement, trust, and retention among younger employees.

1. Introduction

The entrance of Generation Z into the modern workforce has introduced a new set of expectations regarding how organizations communicate and uphold their responsibilities. Unlike previous generations, generations Z places strong emphasis not only on the legality of human resource (HR) practices but also on their alignment with values and moral standards. These evolving expectations have redefined the nature of the psychological contract, the unwritten mutual beliefs and obligations between employers and employees. Research from (Schroth, 2019) mention about Generation Z is entering the workforce with heightened expectations for transparency, fairness, and value alignment demanding not only legal compliance in HR practices but also organizational commitment to sustainability, flexibility, and social responsibility. Another research by (Deas & Coetzee, 2022) mention that psychological contract expectations of Generation Z are increasingly value-oriented, emphasizing meaningful job characteristics and a strong work-life balance as essential components of the reciprocal employee-employer relationship. In an increasingly digital HR landscape, AI is often used to support decision-making in talent acquisition and evaluation (Soekiman et al., 2023). However, for Generation Z, such technological efficiency must be accompanied by transparent and morally grounded HR communication that fulfills psychological expectations. Communication plays a critical role in aligning organizational intentions with employee expectations, especially among Generation Z, who value transparency, moral congruence, and relational authenticity. A communication audit revealed that even well-designed programs can experience challenges in internal communication effectiveness, underscoring the need for evaluative frameworks that ensure continuous feedback and improvement (Rhamadona et al., 2023).

Generation Z expectations are not merely transactional but deeply value-laden, in addition to seeking fair compensation and clear career advancement opportunities, they always prioritize organizational integrity, alignment with personal morals, and inclusive values driven communication. These evolving expectations have profound implications for the psychological contract, the unspoken mutual expectations between employees and employers. As originally conceptualized by (Montes et al., 2015). Psychological Contract Theory (PCT) describes the psychological contract as an individual's system of beliefs regarding the reciprocal obligations that exist between themselves and their organization. These beliefs are shaped by perceived promises and significantly influence how individuals think, feel, and behave in organizational settings. The theory emphasizes that psychological contracts are dynamic, evolving through

social interactions and organizational experiences, and that perceptions of contract fulfillment or breach play a critical role in determining employee attitudes such as job satisfaction, organizational commitment, and intention to stay or leave. In the case of Generation Z, the content of the psychological contract increasingly incorporates moral and ethical expectations, making fulfillment not just a legal matter, but also a reflection of value congruence.

However, there is a growing disconnect between the way HR policies are articulated by organizations and how they are perceived by younger employees. This disconnect is particularly pronounced in contexts when HR communication fails to address not only the legal standards of employment but also the moral and value-based expectations held by generation Z. When young people perceive that their employers do not honor these implicit psychological contracts, they may interpret it as a breach of trust, which can lead to detrimental outcomes such as reduced job satisfaction, decreased organizational commitment, and an increased intention to leave (Topa et al., 2022).

The perception of psychological contract breach often originates from perceived violations in communication be it vagueness, inconsistency, or perceived lack of sincerity in HR interactions. Recent empirical research reinforces this connection: a 2023 study of Korean public-sector employees (including the GenMZ cohort, which overlaps with Gen Z) found that all dimensions of organizational justice—distributive, procedural, and interactional—were significantly and negatively associated with turnover intention; notably, interactional justice from supervisors had a strong impact on reducing intentions to leave among younger employees (Moon et al., 2024). Another recent study in Indonesia by (Alviyani & Etikariena, n.d.) highlights the importance of organizational justice in shaping Generation Z employees' workplace behaviors. The study reveals that among the four dimensions of organizational justice, procedural justice plays a particularly central role in fostering positive outcomes such as innovative work behavior. This finding emphasizes that Gen Z employees are highly responsive to fair and transparent decision-making processes and perceive organizational justice especially in how policies are implemented and communicated as a key determinant of their engagement and trust in the organization.

Furthermore, expectancy theory remains a valuable framework for understanding how employee motivation is shaped by perceptions of effort-reward linkage. (Fang, 2023) emphasizes that employees are more likely to be motivated when they perceive that their efforts will result in desirable outcomes that align with their personal goals and values. In this view, HR communication plays a critical role in reinforcing such perceptions by clearly articulating performance expectations and reward structures. When communication lacks clarity or when psychological contract breaches occur, employees may begin to question the fairness and credibility of the exchange relationship, which in turn weakens their motivation and engagement within the organization.

In the context of Generation Z, psychological contract fulfillment is increasingly shaped by both legal (compliance with labor laws, fair policies) and moral components (alignment with values such as inclusivity, well-being, sustainability). These dual dimensions reflect what scholars refer to as a value-oriented psychological contract (Deas & Coetzee, 2022). This contract model emphasizes that for younger employees, the emotional and ethical content of the employment relationship is just as important if not more than the material or procedural components.

Given these theoretical foundations, it becomes evident that effective HR communication is not merely a matter of delivering information, it is a relational and symbolic act that reinforces (or undermines) the employer's commitment to both the legal and moral elements of the psychological contract. A failure to do so not only trust but also erodes long-term organizational loyalty.

In Indonesia and the broader Southeast Asian context, empirical studies that examine HR communication through the lens of psychological contracts remain limited. While much of the current literature focuses on Western populations, the cultural dimensions of HR expectations in collectivist societies where harmony, mutual respect, and relational obligations play a strong role warrant deeper investigation. As Generation Z becomes a dominant workforce segment in Indonesia, there is an urgent need to understand how their expectations align or clash with prevailing HR practices and communication norms.

Furthermore, the study holds practical implications for employment law and policymaking in Indonesia, particularly in ensuring that communication practices and HR protocols are aligned with the rights and evolving expectations of younger workers. Addressing psychological contract breaches from both legal and ethical perspectives may lead to more inclusive and sustainable labor regulations.

2. Research Method

This quantitative study adopts a correlational-explanatory design to investigate the relationship between HR communication, organizational justice, and psychological contract fulfillment among Generation Z employees in Indonesia. Guided by Psychological Contract Theory (Montes et al., 2015) and Expectancy Theory (Fang, 2023), the research employs a deductive approach using a structured, Likert-scale questionnaire adapted from validated instruments. Participants were selected through non-purposive sampling, targeting Gen Z employees aged 20–29 from diverse industries. The data were collected via online self-administered surveys, ensuring accessibility and confidentiality. To ensure validity, the instrument underwent pilot testing, translation, and expert validation. A total of 250 responses were targeted to meet the minimum requirement for

robust statistical modeling using SMART-PLS 4.0.

Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM), which allows for the assessment of complex models and latent variables. The measurement model was tested for internal consistency, convergent, and discriminant validity, while the structural model examined path coefficients, significance values through bootstrapping (5,000 samples), and predictive relevance. Constructs such as HR communication, procedural justice (Moon et al., 2024), and value-based psychological contracts (Deas & Coetzee, 2022) were central to understanding turnover intention and engagement. Results were presented using path diagrams and tabulated output following APA standards, providing comprehensive insights into how value-laden HR communication practices influence Gen Z's psychological contract perceptions in the Indonesian workplace context.

Based on the theoretical framework and prior empirical findings, this study formulates the following hypotheses to be tested:

H1: Legal Fulfillment in HR Communication has a positive effect on Psychological Contract Fulfillment.

H2: Moral Fulfillment in HR Communication has a positive effect on Psychological Contract Fulfillment.

H3: Psychological Contract Fulfillment has a positive effect on Job Satisfaction.

H4: Psychological Contract Fulfillment has a positive effect on Organizational Commitment.

H5: Psychological contract fulfilment has a negative effect on intention to leave.

H6: Psychological contract fulfilment mediates the relationship between legal fulfilment and job satisfaction.

H7: Psychological contract fulfilment mediates the relationship between moral fulfilment and job satisfaction.

H8: Psychological contract fulfilment mediates the relationship between legal fulfilment and organisational commitment.

H9: Psychological Contract Fulfillment mediates the relationship between Moral Fulfillment and Organizational Commitment.

H10: Psychological Contract Fulfillment mediates the relationship between Legal Fulfillment and Intention to Leave.

H11: Psychological Contract Fulfillment mediates the relationship between Moral Fulfillment and Intention to Leave.

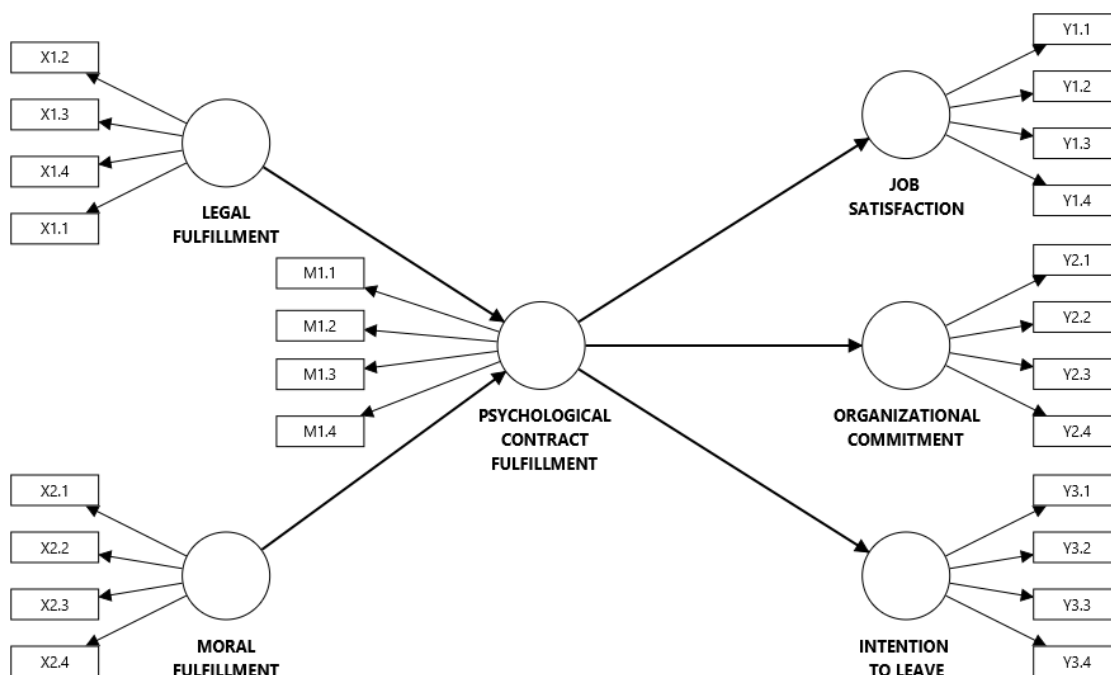


Figure 1. Conceptual Framework

3. Results and Discussion

The demographic profile of the 250 Generation Z respondents reveals a balanced gender distribution (46.8% male, 53.2% female) and a concentration of participants aged 22–25 years (44.4%), followed by those aged 26–30 (31.6%) and 18–21 (24%), confirming relevance to the study's focus on young employees. Most respondents hold a Bachelor's degree (58%), with additional representation from Diploma (22%) and Master's (20%) holders, indicating a well-educated sample. The majority have 1–3 years of work experience (52.4%), with fewer in the <1 year (16.4%), 4–6 years (22.4%), and >6 years (8.8%) categories. Sector-wise, 64% work in the private sector and 36% in the public sector. This demographic distribution supports the study's validity and ensures the sample reflects diverse experiences relevant to analyzing HR communication and psychological contract fulfillment.

Table 1. Demographic Profile of Respondents

Category	Subcategory	Number	(%)
Gender	Male	117	47
	Female	133	53
Age	18-21 years	60	24
	22-25 years	111	44
	26-30 years	79	32
Education Level	Diploma	55	22
	Bachelor's Degree	145	58

	Master's Degree	50	20
	<1 year	41	16
Length of Employment	1-3 years	131	52
	4-6 years	56	22
	>6 years	22	8.8
Sector	Public	90	36
	Private	160	64
Total		250	100

Measurement Models

The measurement model demonstrates strong reliability and validity across all constructs. Cronbach's alpha values range from 0.817 to 0.882 and Composite Reliability (CR) values from 0.879 to 0.919, exceeding the recommended threshold of 0.70 for internal consistency (Hair et al., 2021). Convergent validity is also confirmed, with all Average Variance Extracted (AVE) values above 0.50, ranging from 0.646 (Legal Fulfillment) to 0.741 (Organizational Commitment).

Table 2. Measurement Models

Variable - Indicators	loadings	α	ρ_A	CR	AVE
Legal Fulfillment		0.82	0.83	0.88	0.65
Legal rights explanation	0.835				
Contractual content alignment	0.79				
Regulatory compliance in HR info	0.852				
HR transparency on legal rights	0.734				
Moral Fulfillment		0.83	0.84	0.88	0.66
Fair and unbiased communication	0.821				
Human values respect	0.855				
HR concern for well-being	0.772				
Empathetic policy delivery	0.785				
Psychological Contract Fulfillment		0.86	0.86	0.91	0.71
Fulfilled implicit promises	0.779				
Expected recognition and support	0.891				
Career development fulfillment	0.854				
Cultural alignment with HR message	0.835				

Job Satisfaction	0.87	0.88	0.91	0.72
Satisfaction with responsibilities	0.879			
Personal work satisfaction	0.884			
Satisfaction with work environment	0.771			
Satisfaction with workplace relations	0.851			
Organizational Commitment	0.88	0.89	0.92	0.74
Emotional attachment	0.903			
Difficulty leaving	0.894			
Moral obligation to stay	0.783			
Organizational pride	0.857			
Intention to leave	0.85	0.87	0.9	0.69
Thoughts of quitting	0.865			
Desire to change jobs	0.801			
Consideration to resign	0.879			
Exit intent for better offer	0.768			

All indicator loadings exceed 0.70, indicating strong item reliability, with values between 0.734 and 0.903. These results confirm that the measurement model is both reliable and valid, providing a solid foundation for the subsequent structural model analysis. Discriminant validity was assessed using the Fornell-Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio, both confirming acceptable construct distinctiveness with minor exceptions.

Table 3. Discriminant Validity

		IL	JS	LF	MF	OC	PCF
Fornell-Larcker Criterion	Intention to leave	0.83					
	Job Satisfaction	0.6	0.85				
	Legal Fulfillment	0.65	0.48	0.8			
	Moral Fulfillment	0.47	0.41	0.43	0.81		
	Organizational Commitment	0.98	0.59	0.63	0.45	0.86	
	Psychological Contract Fulfillment	0.5	0.46	0.57	0.5	0.52	0.84
Heterotrait-Monotrait Ratio	Intention to leave						
	Job Satisfaction	0.7					
	Legal Fulfillment	0.78	0.55				
	Moral Fulfillment	0.52	0.47	0.49			
	Organizational Commitment	1.12	0.68	0.75	0.51		
	Psychological Contract Fulfillment	0.57	0.53	0.68	0.56	0.6	

Notes: IL = Intention to leave; JS = Job Satisfaction; LF = Legal Fulfillment; MF = Moral Fulfillment; OC = Organizational Commitment; PCF = Psychological Contract Fulfillment

The Fornell-Larcker criterion indicates that the square roots of AVE for all constructs (e.g., 0.841 for Psychological Contract Fulfillment, 0.861 for Organizational Commitment) are greater than their inter-construct correlations, satisfying the threshold proposed by Fornell and Larcker (1981). The HTMT values mostly fall below the recommended threshold of 0.90 (Hair et al., 2021), such as PCF–Job Satisfaction (0.526) and PCF–Moral Fulfillment (0.555), confirming further discriminant validity. However, one HTMT value—Organizational Commitment and Intention to Leave (1.118)—exceeds the threshold. Overall, the results indicate that most constructs are empirically distinct and suitable for structural model testing.

Structural Models

The structural model and hypothesis testing results provide robust empirical support for the proposed research framework, demonstrating both statistical significance and acceptable levels of predictive power.

Table 4. Hypotheses Testing

Relationship	β	<i>T</i> Values	VIF	R^2	R^2 Adjusted	Q^2	f^2	<i>P</i> values
H1: LF -> PCF	0.44	8.952	1.223	0.404	0.399	0.279	0.265	0
H2: MF -> PCF	0.31	6.007	1.223	0.404	0.399	0.279	0.13	0
H3: PCF -> IL	0.5	9.547	1.0	0.25	0.247	0.163	0.334	0
H4: PCF -> JS	0.46	8.87	1.0	0.213	0.21	0.147	0.271	0
H5: PCF -> OC	0.52	9.809	1.0	0.274	0.271	0.196	0.378	0
H6: LF -> PCF -> OC	0.23	5.409				0.196		0
H7: MF -> PCF -> OC	0.16	5.124				0.196		0
H8: LF -> PCF -> IL	0.22	5.354				0.163		0
H9: LF -> PCF -> JS	0.2	5.551				0.147		0
H10: MF -> PCF -> IL	0.15	5.016				0.163		0
H11: MF -> PCF -> JS	0.14	4.612				0.147		0

Notes: IL = Intention to leave; JS = Job Satisfaction; LF = Legal Fulfillment; MF = Moral Fulfillment; OC = Organizational Commitment; PCF = Psychological Contract Fulfillment

Hypotheses H1 and H2 were supported, indicating that both Legal Fulfillment ($\beta = 0.439$, $t = 8.952$, $p < 0.001$) and Moral Fulfillment ($\beta = 0.308$, $t = 6.007$, $p < 0.001$) in HR communication have a significant positive effect on Psychological Contract Fulfillment (PCF). These relationships exhibit moderate effect sizes ($f^2 = 0.265$ for Legal Fulfillment and $f^2 = 0.130$ for Moral Fulfillment), with strong predictive relevance ($Q^2 = 0.279$) and $R^2 = 0.404$, suggesting that nearly 40% of the variance in PCF is explained by these two dimensions. The VIF values are below the multicollinearity threshold of

5 (Hair et al., 2021), indicating no collinearity issues between predictors. Further, PCF significantly influences key employee outcomes, supporting H3 through H5. Specifically, PCF has a positive effect on Intention to Leave (H3: $\beta = 0.50$, $t = 9.547$, $f^2 = 0.334$, $Q^2 = 0.163$), Job Satisfaction (H4: $\beta = 0.462$, $t = 8.87$, $f^2 = 0.271$, $Q^2 = 0.147$), and Organizational Commitment (H5: $\beta = 0.524$, $t = 9.809$, $f^2 = 0.378$, $Q^2 = 0.196$), with respective R^2 values of 0.250, 0.213, and 0.274. These values surpass the acceptable R^2 threshold of 0.10 (Falk & Miller, 1992) and indicate medium to large effects. Mediating hypotheses H6 to H11 are also statistically supported (t -values ranging from 4.612 to 5.551, $p < 0.001$), confirming that PCF significantly mediates the effects of both Legal and Moral Fulfillment on all three outcome variables – Organizational Commitment, Intention to Leave, and Job Satisfaction.

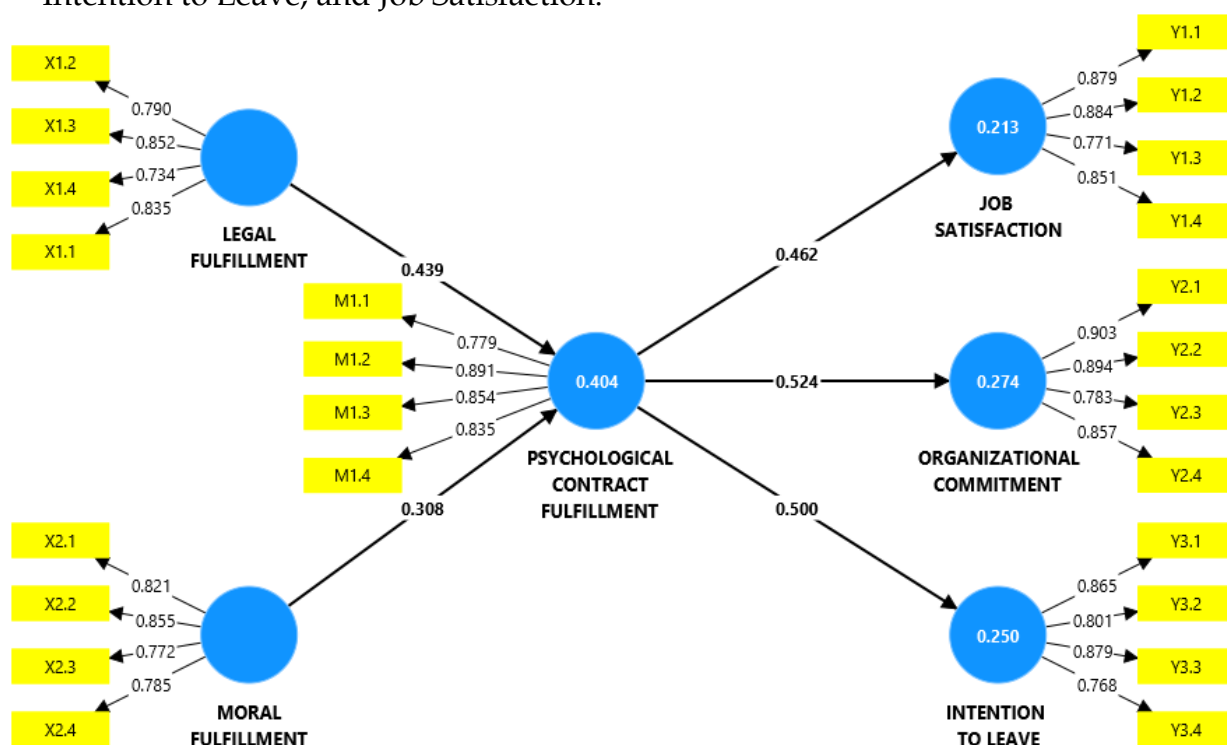


Figure 2. Path Diagram

Collectively, these findings validate the structural model's explanatory and predictive adequacy, with strong theoretical alignment to Psychological Contract Theory and empirical adherence to recommended criteria for reliability, validity, and effect size in PLS-SEM (Hair et al., 2021).

Discussion

The integration of the study's theoretical framework with the empirical findings generated through SMART-PLS analysis underscores a strong alignment between Psychological Contract Theory (Montes et al., 2015), Expectancy Theory (Fang, 2023), and the behavioral tendencies of Generation Z in the Indonesian workforce. The Psychological Contract Theory posits that employees form dynamic beliefs about

mutual obligations based on organizational communication and perceived promises. The findings reinforce this theory, as both legal fulfillment and moral fulfillment in HR communication were shown to significantly contribute to psychological contract fulfillment. This suggests that Generation Z does not view HR messages as merely transactional but as a barometer of organizational integrity, fairness, and shared values – validating the importance of value-oriented expectations emphasized by Deas & Coetzee (2022). Moreover, expectancy theory is substantiated in the way that psychological contract fulfillment positively influenced job satisfaction and organizational commitment while reducing intention to leave. This reflects Fang's (2023) assertion that employees are more motivated and loyal when they perceive alignment between effort, outcomes, and organizational communication. Furthermore, the mediating role of psychological contract fulfillment between HR communication (both legal and moral) and employee outcomes illustrates that the fulfillment of perceived mutual obligations is the core mechanism driving behavioral responses in Gen Z. These results not only validate the theoretical constructs but also demonstrate how organizational justice, moral resonance, and transparent communication are essential levers in shaping the employment relationship with a generation that demands both legal compliance and ethical congruence. Therefore, the theoretical integration confirms that psychological contracts today must reflect both regulatory clarity and moral legitimacy to foster commitment, satisfaction, and retention among younger employees.

4. Conclusion

This study confirms that both legal and moral fulfillment in HR communication significantly enhance psychological contract fulfillment (PCF), which in turn positively influences job satisfaction and organizational commitment while reducing intention to leave among Generation Z employees in Indonesia. The results strongly support Psychological Contract Theory and Expectancy Theory, emphasizing that Gen Z expects HR communication to reflect not only legal compliance but also ethical and value-based alignment. Practically, this underscores the need for organizations to implement transparent, empathetic, and morally grounded HR strategies to foster trust and retention. The study also highlights that PCF acts as a key mediating mechanism between HR practices and employee outcomes. Future research should explore longitudinal effects, cultural variations, and additional factors such as organizational support and digital trust to deepen understanding of value-oriented psychological contracts in a rapidly evolving workforce.

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