

# **Employee Engagement and Organizational Trust Among Millennial and Generation Z Employees: The Mediating Role of Psychological Well-Being and Perception of Transformational Leadership In The Formal Sector In Indonesia**

**Destuwinny Yustica Ilhamsyah\*, Neuneung Ratna Hayati**

Universitas Widyatama, Indonesia

Email: destuwinnyusticai@gmail.com\*, neuneung.ratna@widyatama.ac.id

**Abstract.** Low employee trust in organizations poses a challenge for Millennials and Generation Z, who currently dominate the workforce. Various reports indicate that these two generations tend to exhibit lower levels of organizational trust than previous generations, accompanied by rising expectations regarding the meaning of work, supportive work relationships, transparency, and empathetic leadership styles. However, previous studies have been limited in explaining the psychological mechanisms linking employee engagement to organizational trust among younger generations in Indonesia. This aims to analyze the influence of employee engagement on organizational trust, with psychological well-being and perceptions of transformational leadership as mediating variables among Millennial and Generation Z employees in the formal sector. This study employed a quantitative approach using the PLS-SEM method with 207 respondents. The results reveal that employee engagement does not directly foster organizational trust but exerts a significant effect through psychological well-being and perceptions of transformational leadership, which serve as full mediators. These findings suggest that work engagement among younger generations does not automatically build organizational trust; rather, it operates through positive psychological experiences and perceptions of leadership quality. Practically, the results underscore the importance of managing employee engagement to strengthen psychological well-being and develop transformational leadership, thereby building sustainable organizational trust.

**Keywords:** employee engagement, organizational trust, psychological well-being, transformational leadership, millennials, generation Z

## **INTRODUCTION**

In the dynamics of modern organizations characterized by high labor mobility, acceleration of digital transformation, and changes in employee expectations, organizational trust is a key element in maintaining healthy and collaborative working relationships. Trust in the organization reflects the employee's belief that the organization will act fairly, transparently, and consistently in fulfilling its commitment to employee well-being (Mayer et al., 1995). A high level of trust has been proven to contribute to lowering turnover intention and increasing employee commitment and loyalty (Chen & Sriphon, 2021), while low organizational trust has the potential to trigger work stress, burnout, low engagement, and psychological resignation phenomena (Lee et al., 2020).

The role of organizational trust is becoming increasingly crucial in the context of changing the demographic structure of the workforce, where Millennials and Generation Z now dominate the composition of employees in various sectors. Pew Research Center data (2023) shows that more than 60% of the global workforce comes from both generations, while in Indonesia, the Central Statistics Agency (2023b) notes that Millennials and Generation Z make up around 54.75% of the working-age population. This dominance indicates that the dynamics of labor relations, leadership patterns, and human resource management practices in the future are greatly influenced by the values, expectations, and psychosocial characteristics of the

*Employee Engagement and Organizational Trust Among Millennial and Generation Z Employees: The Mediating Role of Psychological Well-Being and Perception of Transformational Leadership In The Formal Sector In Indonesia*  
younger generation.

However, the dominance of the Millennial generation and generation Z also goes hand in hand with a decline in the level of trust in work institutions. The Deloitte Global Gen Z & Millennial Survey report (2023) shows that only about one-third of respondents from both generations state a high level of trust in the organizations they work for. This skeptical attitude is influenced by the mismatch of organizational values, low transparency, limited psychological support, and lack of involvement in decision-making. Similar findings were reported by the Edelman Trust Barometer (2024), which confirms that the pressure on organizations to build trust is growing, particularly through improved leadership quality and employee engagement.

In the Indonesian context, although explicit studies of organizational trust are still relatively limited, various indicators show a similar trend. The People's Welfare Indicator Survey (2023a) and the Jakpat report (2022) indicate that Millennials and Generation Z show moderate to low levels of satisfaction and trust in organizational justice, transparency, and psychological support. These indicators are in line with the construct of organizational trust as formulated by Mayer et al. (1995) and Dirks & Ferrin (2002), so it can be seen as a reflection of the declining trust of young employees in the formal work environment in Indonesia.

One of the factors that is considered to have a strategic role in building employee trust in the organization is employee engagement. Employee engagement refers to an employee's emotional, cognitive, and behavioral attachment to their work and organization, which is reflected in their enthusiasm, dedication, and active involvement in the performance of tasks (Schaufeli et al., 2006). Employees who have a high level of engagement tend to show positive perceptions of the organization, including the belief that the organization values their contributions and is committed to employee well-being (Albrecht et al., 2015; Karatepe et al., 2023).

However, several studies show that the influence of employee engagement on organizational trust does not always occur directly. Trust in the organization is the result of a complex psychological evaluation process, which is influenced by the condition of the individual's well-being as well as the perception of the work environment and leadership (Breevaart et al., 2014; Dirks & Ferrin, 2002). Therefore, it is important to identify mediation mechanisms that explain how work engagement can transform into trust in the organization.

In this study, psychological well-being and perception of transformational leadership were positioned as the two main mediating variables. Psychological well-being describes the condition of individual psychological well-being characterized by a sense of meaning, positive interpersonal relationships, autonomy, and self-acceptance (Ryff, 1995). Employees with a high level of well-being tend to evaluate the organization more positively and show a stronger level of trust (Diener et al., 2017; Jena et al., 2018). Employee engagement plays a role in improving psychological well-being through meaningful work experience, a sense of appreciation, and opportunities for growth (Hakanen & Schaufeli, 2012; Karatepe et al., 2022).

In addition, transformational leadership is seen as a crucial contextual factor in forming employee trust in the organization. Transformational leadership styles are characterized by the leader's ability to inspire a shared vision, provide individual attention, and encourage the development of employees' potential (Bass & Avolio, 1994). Positive perceptions of transformational leadership have been shown to increase employee engagement, psychological well-being, and trust, especially in Millennials and Generation Z who value empathetic,

participatory, and empowering leadership (Putra & Dewi, 2023; Zheng et al., 2021).

Although the relationship between employee engagement, psychological well-being, transformational leadership, and organizational trust has been studied before, empirical studies that simultaneously test the two mediation mechanisms in the context of Millennials and Generation Z in Indonesia's formal sector are still relatively limited. The research of Jena et al. (2018) provides an important conceptual foundation, but it is conducted in different cultural contexts and organizational structures, and has not specifically highlighted the dynamics of the younger generation that now dominates the world of work.

Based on the research gap, this study aims to examine the influence of employee engagement on organizational trust by involving psychological well-being and the perception of transformational leadership as a mediating variable, in Millennial and Generation Z employees who work in the Indonesian formal sector. Thus, this research is expected to make a theoretical and empirical contribution in understanding the mechanism of organizational trust formation in the younger generation in the context of increasingly complex cross-generational work.

## **MATERIALS AND METHOD**

This study employed a quantitative approach with a descriptive and verifiable design. The quantitative approach was chosen because the study focused on measuring psychological constructs and testing relationships between variables based on numerical data from respondents.

Descriptively, this study aimed to describe levels of employee engagement, psychological well-being, perceptions of transformational leadership, and organizational trust among Millennial and Generation Z employees in Indonesia's formal sector. Descriptive analysis provided an overview of respondent characteristics and tendencies in the research variables.

Verifiably, this study examined the influence of employee engagement on organizational trust, both directly and indirectly through psychological well-being and perceptions of transformational leadership as mediating variables. The research employed a cross-sectional design, with data collection conducted at a specific time. This design enabled researchers to capture an empirical snapshot of the research variables and their relationships during the data collection period, without observing changes over time.

The population comprised Millennial (born 1981–1996) and Generation Z (born 1997–2012) employees in Indonesia's formal sector. The study focused on employees with at least six months of service at their organization. This threshold was set because organizational socialization typically stabilizes within the first six to twelve months, allowing employees sufficient experience to evaluate their work environment, leadership style, and relationships (Bauer et al., 1998).

The formal sector was selected as the research context due to its clear organizational structure, documented work systems, and formally regulated employment relationships. These features enabled more consistent employee perceptions of organizational practices, work engagement, leadership, psychological well-being, and trust. Observation units were individual Millennial and Generation Z employees in staff or non-managerial positions, as this group interacts directly with organizational systems and superiors in daily activities.

The sampling technique was purposive sampling, with criteria including: (1) belonging to the Millennial generation or Generation Z, (2) working in the formal sector, and (3) having at least six months of tenure. This technique ensured respondents aligned with the research objectives (Etikan et al., 2016). The study obtained 207 respondents, deemed adequate for structural model analysis using Partial Least Squares–Structural Equation Modeling (PLS-SEM), given the model's latent constructs and mediation pathways (Kline, 2011).

Employee engagement was measured using the shortened Utrecht Work Engagement Scale (UWES-9) developed by Schaufeli and Bakker (2003). This 9-item instrument represented three dimensions: vigor, dedication, and absorption. UWES-9 was selected for its comprehensive yet concise assessment of work involvement, with prior adaptation and validation in Indonesia showing adequate validity and reliability (Kristiana et al., 2018).

Psychological well-being was measured using the short Ryff Psychological Well-Being Scale (RPWB-18) developed by Ryff and Keyes (1995). This 18-item scale covered six dimensions: self-acceptance, positive relations with others, autonomy, environmental mastery, purpose in life, and personal growth. It was chosen for its eudaimonic focus and strong psychometric properties in an Indonesian adaptation (Humaidah & Mulyono, 2025).

Perceptions of transformational leadership were measured using the Multifactor Leadership Questionnaire (MLQ) developed by Bass and Avolio (1995). This instrument assessed five dimensions: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. MLQ was selected for its design to capture subordinates' perceptions of superiors' behavior under the Full Range Leadership Model.

Organizational trust was measured using the Organizational Trust Inventory (OTI) developed by Nyhan and Marlowe (1997). This instrument assessed two dimensions: trust in supervisors and trust in the organization. OTI was chosen for its focus on employees' ongoing evaluations of direct superiors and the organization.

Data analysis proceeded in two stages. First, descriptive analysis summarized respondent characteristics and variable tendencies using SPSS software. Second, the research model was tested using Partial Least Squares–Structural Equation Modeling (PLS-SEM) in SmartPLS Version 4, suitable for latent constructs, mediation, and non-normal data (Hair et al., 2019).

The measurement model was evaluated for construct validity and reliability. Convergent validity was assessed via outer loadings ( $\geq 0.70$ ) and average variance extracted (AVE  $\geq 0.50$ ). Reliability was evaluated using Cronbach's alpha and composite reliability ( $\geq 0.70$ ). Discriminant validity was confirmed with Fornell–Larcker criteria and HTMT values ( $< 0.90$ ).

The structural model was evaluated by examining the coefficient of determination ( $R^2$ ) and path significance. Direct and indirect effects, including mediation by psychological well-being and transformational leadership perceptions, were tested via bootstrapping at a 5% significance level.

## **RESULTS AND DISCUSSION**

### **Respondent Characteristics**

Most respondents were female (64.7%) and were in the 23–32 age range, which comprised 67.1% of the study population. Regarding education, most of the respondents had a bachelor's degree (73.9%), indicating that the sample was dominated by skilled workers in the

formal sector. In terms of the employment sector, the most respondents came from government agencies or public institutions (63.3%), followed by the education sector (14.0%) and health services (9.7%).

In addition, almost all respondents are domiciled and work in the Sumatra region (91.8%), especially the Bangka Belitung Islands Province. Based on the length of service, the composition of respondents was fairly evenly distributed between the period of 1–3 years and > 6 years, each by 30.4%. Meanwhile, for the working period in the current position, the majority are in the range of 1-3 years (35.7%), indicating a moderate dynamic of position transfer in the organization.

## Statistics Descriptive Variable

**Table 1. Descriptive Data Table of EE, PWB, PTL, and OT by Gender, Age, and Tenure in Current Organization**

		L	P	Total	Millennial	Z	Total	6–12 Month	1–3 Year	4–6 Year	> 6 Year	Total
EE	Mean	35.24*	35.23	35.24	35.85*	34.56	35.24	36.20*	34.71	33.85	36.06	35.24
	SD	6.39	5.64	5.90	5.03	6.69	5.90	7.04	6.60	4.99	4.68	5.90
PW B	Mean	68.26*	67.35	67.67	68.61*	66.63	67.67	65.90	68.88*	66.53	68.33	67.67
	SD	8.67	7.64	8.01	8.08	7.85	8.01	7.48	7.99	8.62	7.85	8.01
PTL	Mean	78.76*	76.08	77.03	76.21	77.94*	77.03	77.07	77.04	76.60	77.26*	77.03
	SD	16.52	13.65	14.74	14.50	15.02	14.74	16.30	14.76	13.41	14.87	14.74
OT	Mean	47.75*	43.36	46.85	47.07*	46.61	46.85	46.37	46.44	46.41	47.85*	46.85
	SD	10.30	8.81	9.36	8.81	9.98	9.36	11.33	9.42	8.57	8.53	9.36

\*Significant mean difference at  $p < .01$

The standard deviation (SD) values of employee engagement, psychological well-being, transformational leadership perception, and organizational trust were lower than the mean value (Mean). This shows that the data tends to be homogeneous so that the average value obtained is representative of the overall data.

In terms of gender, the average employee between male (Mean = 35.24) and female (Mean = 35.23) respondents appeared relatively similar, which showed that the level of employee attachment to work did not differ much between the two. Meanwhile, in psychological well-being, men had a slightly higher average (Mean = 68.26) than women (Mean = 67.35), suggesting that men in this study tended to have slightly better psychological well-being.

For the perception of transformational leadership, the mean value of men (Mean = 78.76) was slightly higher than that of women (Mean = 76.08), indicating that men had a more positive perception of transformational leadership styles in the workplace. In organizational trust, men also showed a higher average score (Mean = 47.75) than women (Mean = 46.36), which means that the level of trust in the organization was greater in the male group.

Based on generation, employee engagement tends to be higher in the Millennial generation (Mean = 35.85) than in generation Z (Mean = 34.56). The same is also seen in

*Employee Engagement and Organizational Trust Among Millennial and Generation Z Employees: The Mediating Role of Psychological Well-Being and Perception of Transformational Leadership In The Formal Sector In Indonesia*

psychological well-being, where the Millennial generation (Mean = 68.61) shows higher psychological well-being than generation Z (Mean = 66.63). However, perceptions of transformational leadership were higher in generation Z (Mean = 77.94) than in Millennials (Mean = 76.21), indicating that young employees are more responsive to transformational leadership styles. The organizational trust is relatively similar between the two generations with a small mean difference where in the Millennial generation (Mean = 47.07) it is slightly higher than in generation Z (Mean = 46.61).

Based on the length of employment in the current organization, respondents with a working period of 6 – 12 months showed the highest mean value in employee engagement (Mean = 36.20) indicating that in the initial working period, the level of attachment to work tended to be high. In psychological well-being, the group with a working period of 1 – 3 years had the highest mean value (Mean = 68.88) indicating that the psychological well-being of employees was at a better level in the middle phase of the working period. In the perception of transformational leadership and organizational trust, the mean value was highest in the group with a working period of more than 6 years (PTL Mean = 77.26; OT Mean = 47.85) indicates that employees who have been employed for a long time tend to have a more positive perception of transformational leadership styles as well as higher levels of trust in the organization.

## Test Measurement Model

**Table 2. of Loading Factor Values**

<b>Construct</b>	<b><math>\lambda</math></b>
EE <i>Absorption</i>	.857
EE <i>Dedication</i>	.929
EE <i>Vigor</i>	.924
OT <i>TrustOrganization</i>	.954
OT <i>TrustSupervisor</i>	.963
PTL <i>IdealizedAttributes</i>	.871
PTL <i>IdealizedBehaviors</i>	.946
PTL <i>IndividualConsideration</i>	.920
PTL <i>InspirationalMotivation</i>	.951
PTL <i>IntellectualStimulation</i>	.934
PWB <i>Autonomy</i>	.433
PWB <i>EnvMastery</i>	.787
PWB <i>PersonalGrowth</i>	.736
PWB <i>PositiveRelations</i>	.739
PWB <i>PurposeLife</i>	.766
PWB <i>SelfAcceptance</i>	.819

**Table 3. AVE Value Table (Average Variance Extracted)**

<i>Employee engagement</i>	.817
<i>Organizational trust</i>	.919
<i>Perception Transformational leadership</i>	.856
<i>Psychological Well Being</i>	.525

All indicators in the research construct have an outer loading value of  $> .70$ , except for

the autonomy dimension in psychological well-being which has a loading value of .433. Nonetheless, the construct is maintained as the AVE value shows an overall > of .50. Thus, all constructs of this study have met the convergent validity, so that the indicators have been able to represent the latent constructs well.

**Table 4. Discriminating Validity Table (HTMT)**

Construct	EE	OT	PTL	PWB
EE	-	.621	.609	.569
OT	.621	-	.948	.466
PTL	.609	.948	-	.413
PWB	.569	.466	.413	-

**Table 5. HTMT Confidence Interval (Bootstrapping)**

Relationship	Original Sample (O)	Sample Mean (M)	2.5 %	97.5 %
EE – OT	.621	.621	.464	.752
EE - PTL	.609	.608	.452	.740
PTL - OT	.948	.947	.912	.977
EE - PWB	.569	.573	.425	.704
OT - PWB	.466	.466	.311	.602
PTL - PWB	.413	.413	.261	.566

All HTMT values between constructs < .90 except for the relationship between Transformational leadership (PTL) and Organizational trust (OT) perceptions which have a value of .948. The bootstrapping confidence interval (Henseler et al., 2015) results with an upper limit of .977 < 1.00, which means that the validity of the discriminator is still met.

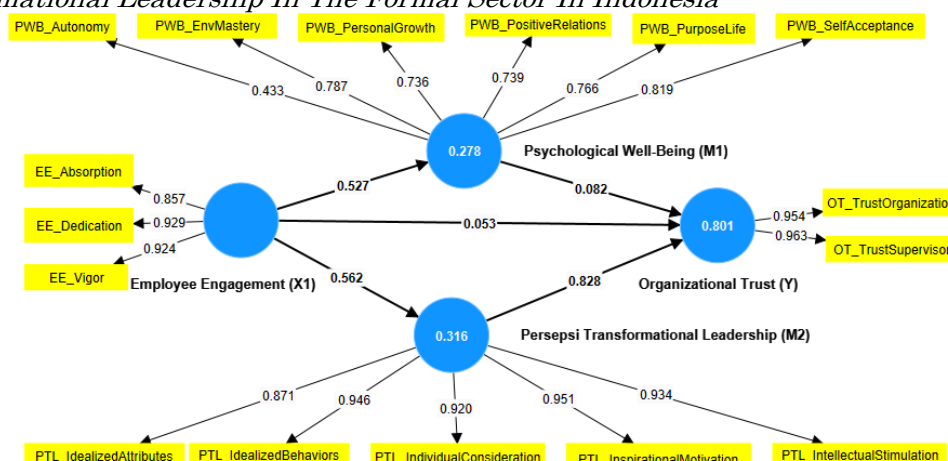
**Table 6. Construct Realism Table**

Construct	Cronbach's Alpha	rho_A	Composite Reliability
<i>Employee engagement</i>	.888	.898	.930
<i>Organizational trust</i>	.912	.920	.958
<i>Perception Transformational leadership</i>	.958	.959	.967
<i>Psychological Well Being</i>	.816	.860	.865

The entire construct of the study showed Cronbach's Alpha, *rho\_A*, and Composite Reliability values > .70. Thus, all constructs have good internal realities.

## Structural Model Test

*Employee Engagement and Organizational Trust Among Millennial and Generation Z Employees: The Mediating Role of Psychological Well-Being and Perception of Transformational Leadership In The Formal Sector In Indonesia*



**Figure 1. Structural Model & Path Coefficients**

**Table 6. Coefficient of Determination**

Variable	R <sup>2</sup>	R <sup>2</sup> Adjusted	Remarks
Organizational trust	.801	.798	Substantial
Perception Transformational leadership	.316	.312	Moderate
Psychological well-being	.278	.274	Moderate

Organizational trusts fall into the substantial category ( $R^2 = .801$ ;  $R^2$  Adjusted = .798). This means that the combination of direct influence of employee engagement and indirect influence through psychological well-being, and perception of transformational leadership can explain 80.1% of organizational trust variations. Furthermore, for the perception of transformational leadership ( $R^2 = .316$ ;  $R^2$  Adjusted = .312) and psychological well-being ( $R^2 = .278$ ;  $R^2$  Adjusted = .274) was included in the moderate category, which indicates that employee engagement has a moderate ability to explain variations in perceptions of transformational leadership (31.6%) and psychological well-being (27.8%).

**Table 9. Main Effect Test Table**

Path	Coefficient	T	P	Information
EE → OT	.561	8.186	.000	Significant

**Table 10. Path Coefficient**

Path	Coefficient	t	p
EE → OT	.053	1.330	.184
EE → PTL	.562	7.818	.000
EE → PWB	.527	9.197	.000
PTL → OT	.828	23.741	.000
PWB → OT	.082	2.129	.033

**Table 10. Indirect Effects**

Mediation Pathway	Coefficient Indirect	T	P	Results
EE → PWB → OT	.043	2.068	.039	Significant
EE → PTL → OT	.465	7.458	.000	Significant

**Table 11. Total Effects and Proportions of Mediation Effects**



Path	Total Effect	Indirect Effect	VAF
EE → OT (via PWB & PTL)	.562	.508	90.4

The path coefficient results showed a double mediation pattern. In the initial model without a mediator, employee engagement had a significant positive effect on organizational trust ( $\beta = 0.561$ ;  $t = 8.186$ ;  $p < 0.001$ ). However, after psychological well-being and perceptions of transformational leadership were incorporated into the model, the direct influence of EE → OT weakened and became insignificant ( $\beta = 0.053$ ;  $t = 1.330$ ;  $p = 0.184$ ). In contrast, the EE → PTL pathway ( $\beta = 0.562$ ;  $t = 7.818$ ;  $p < 0.001$ ) and EE → PWB pathway ( $\beta = 0.527$ ;  $t = 9.197$ ;  $p < 0.001$ ) remained significant, as did the PTL pathway → OT ( $\beta = 0.828$ ;  $t = 23.741$ ;  $p < 0.001$ ) and PWB → OT ( $\beta = 0.082$ ;  $t = 2.129$ ;  $p = 0.033$ ).

The indirect effects of EE on OT through PWB ( $\beta = 0.043$ ;  $t = 2.068$ ;  $p = 0.039$ ) and especially through PTL ( $\beta = 0.465$ ;  $t = 7.458$ ;  $p < 0.001$ ) accounted for approximately 90.4% of the total influence (VAF = 0.904), so that the relationship between employee engagement and organizational trust was fully mediated by psychological well-being and transformational leadership perceptions, with EE → PTL → OT lines as the largest contribution.

### 1. Hypothesis 1 (H1): Employee engagement affects organizational trust

The results of the main effect analysis showed that employee engagement had a significant effect on organizational trust ( $\beta = .561$ ;  $t = 8,186$ ;  $p = .000$ ). These findings indicate that the higher the level of employee engagement in work characterized by energy, enthusiasm, and commitment to the role, the stronger their belief that the organization can be trusted. The high coefficient value confirms that engagement is an important early predictor of trust formation before the mediator is incorporated into the model. This pattern shows that the experience of work involvement creates psychological and relational conditions that are conducive to the growth of trust in the organization.

Theoretically, these findings are consistent with Social Exchange Theory (Blau, 1964), which explains that employment relationships develop through reciprocity-based exchange processes or exchanges that contain reciprocal elements. When employees feel engaged, they value the fact that the organization provides support, opportunities for growth, and a meaningful work environment. Engagement is a signal that the organization meets employees' expectations and personal values, so that in a reciprocal framework they reciprocate by increasing trust in the organization.

The theory of trust formation (Mayer et al., 1995) also strengthens this mechanism by stating that trust arises when individuals view the organization as having competence, integrity, and concern. Employees with high engagement levels tend to have a more positive perception of organizational consistency and reliability. In addition, Affective Events Theory (Weiss & Cropanzano, 1996) explains that engagement encourages work experiences that produce positive affectations which are then processed into more favorable cognitive evaluations of the organization, one of which is in the form of trust. Thus, the relationship of engagement and trust has an emotional and cognitive basis that strengthens each other.

The findings of this study are in line with previous empirical studies. Jena et al. (2018) found that engagement increases the perception of organizational reliability and support in various work contexts. Saks & Gruman (2018) also showed that employees with high

engagement have a stronger level of trust in the organization, both in the public and private sectors. Meanwhile, Daud (2023) explained that employee development strategies and a supportive work culture are able to increase engagement, which further strengthens trust. The consistency of the results of this previous research strengthens the evidence that engagement is an important foundation in building trust in the organization.

The empirical pattern of the respondents in this study also supports this relationship. Based on Table 4.13, employee engagement is higher in the Millennial generation ( $M = 35.85$ ) than in generation Z ( $M = 34.56$ ). This is in line with the tendency of the Millennial generation to have higher job role stability, longer organizational experience, and stronger work meaning, so that their engagement develops more optimally.

In line with this pattern, organizational trust is also slightly higher in Millennials ( $M = 47.07$ ) compared to generation Z ( $M = 46.61$ ). In terms of service life, the highest engagement appeared in employees with a working period of 6–12 months ( $M = 36.20$ ), while the highest trust was in employees with a service period of more than six years ( $M = 47.85$ ). This suggests that engagement serves as an early trigger for psychological attachment, while trust develops gradually through the accumulation of long-term experience and consistency of interaction with the organization.

Based on the results of the convergent validity test in Table 4.8, all dimensions of employee engagement show high and relatively balanced outer loading values, namely vigor ( $\lambda = .924$ ), dedication ( $\lambda = .929$ ), and absorption ( $\lambda = .857$ ). These findings indicate that the respondents' work attachment in this study is comprehensively formed through a combination of work energy, emotional involvement, and cognitive solubility to work.

Although the dedication dimension has the highest outer loading value, the difference between the dimensions is relatively small, so employee engagement in the Millennial and Z generations is not represented by a single aspect, but as a multidimensional construct that complements each other. This shows that the work attachment of young employees is not only reflected in the sense of pride and meaning of work, but also from the spirit of work (vigor) and focus and full involvement in work activities (absorption).

This pattern reflects the characteristics of Millennials and Generation Z who tend to engage in work holistically, both affectively, cognitively, and behaviorally. Such end-to-end attachment becomes an important psychological foundation that allows employees to build a positive evaluation of the organization, which further contributes to the formation of trust in the organization.

Overall, the results of this study confirm that employee engagement is an important factor in the formation of organizational trust. Engagement produces positive work experiences that activate reciprocity mechanisms, strengthen perceptions of organizational competence and integrity, and generate positive effects that support the formation of trust. These findings are consistent with social exchange theory, trust formation theory, as well as previous empirical evidence. In the context of Millennials and Generation Z, engagement is a source of positive work experience that is relevant to the characteristics and work orientations of the two generational groups. Thus, the first hypothesis is accepted.

## **2. Hypothesis 2 (H2): Psychological well-being mediates the relationship between employee engagement and organizational trust**

The results of the indirect effect analysis showed that psychological well-being significantly mediated the relationship between employee engagement and organizational trust ( $\beta = .043$ ;  $t = 2.068$ ;  $p = .039$ ). When mediators were incorporated into the structural model, the direct influence of employee engagement on organizational trust was previously significant ( $\beta = .561$ ;  $p < .001$ ) became insignificant ( $\beta = .053$ ;  $p = .184$ ). This pattern indicates full mediation, which means that work involvement does not directly generate trust, but first improves the psychological well-being of employees. Thus, organizational trust arises not only from the energy and commitment of the work itself, but from the quality of psychological well-being formed because of the engagement.

Theoretically, this mechanism is in line with Affective Events Theory (Weiss & Cropanzano, 1996) which explains that daily work experiences give rise to emotional reactions that are then processed into cognitive evaluations of the organization. Employee engagement functions as a working condition that produces positive emotional events such as meaning, enthusiasm, and personal achievement that strengthen psychological well-being. Perspectives on Positive Psychology (Ryff, 1995; Seligman, 2011) also emphasized that psychological well-being is an optimal condition of human functioning, characterized by stable positive emotions, mastery of the environment, good relationship quality, and clear life goals.

When engagement increases these various dimensions, employees are in a more adaptive and healthy psychological state. This condition then affects trust, because individuals with good well-being tend to assess the organization as supportive, consistent, and trustworthy. Social Exchange Theory (Blau, 1964) also provides the conceptual basis that organizational trust is formed when employees feel that the organization reciprocates their involvement by providing a positive emotional and psychological experience. Thus, psychological well-being functions as an affective and cognitive bridge that connects engagement with trust.

The results of this study are consistent with previous empirical evidence. Fisher & Connelly (2020) show that psychological well-being contributes directly to trust formation, with individuals who have good well-being more likely to rate the organization as a fair and supportive entity. Widanti & Sunaryo (2022) found that job resources strengthen engagement, which further improves psychological well-being and then strengthens organizational trust. Albrecht & Marty (2020) explain that engagement creates psychological flourishing, and this flourishing is the basis for the emergence of positive perceptions of the organization, including trust. The findings from Jena et al. (2018) also show an indirect pathway through well-being, where engagement improves psychological conditions which ultimately strengthens trust. Overall, empirical literature shows a consistent pattern that psychological well-being is an important mechanism that explains the contribution of engagement to trust.

The empirical pattern of respondents in this study also supports the mediation mechanism. Based on Table 4.13, psychological well-being is higher in Millennials ( $M = 68.61$ ) than Generation Z ( $M = 66.63$ ), consistent with a higher engagement rate in Millennials ( $M = 35.85$ ) compared to Z ( $M = 34.56$ ).

This indicates that the group with higher engagement also has more stable well-being, so the mediation pathway is empirically confirmed. In terms of working time, the highest psychological well-being was in employees with a working period of 1 - 3 years ( $M = 68.88$ ), while the highest trust was in a working period of more than six years ( $M = 47.85$ ). This pattern suggests that psychological well-being develops earlier in response to engagement, whereas

trust is formed through the accumulation of experience and long-term interactions. Thus, empirical data corroborate the flow that engagement increases well-being first, and stable well-being then becomes the basis for trust formation.

In the context of the Millennial generation and generation Z which is the focus of this research, psychological well-being is increasingly important as a mediator. The Millennial generation tends to prioritize emotional stability, work meaning, and work-life balance, so that engagement in this group is easier to produce strong well-being and ultimately strengthen trust. On the other hand, Generation Z has more volatile psychological dynamics and is more sensitive to adaptation pressures, so engagement in this group does not necessarily generate trust without stable psychological well-being. Thus, psychological well-being plays a central role for young employee groups, where the formation of trust is highly dependent on the quality of emotional experience and psychological security at work.

Based on the results of the convergent validity test in Table 4.8, the self-acceptance dimension showed the highest outer loading value ( $\lambda = .819$ ) compared to other psychological well-being dimensions. These findings indicate that the psychological well-being of the respondents in this study is mainly represented through the individual's ability to accept themselves, including acceptance of advantages, limitations, and life experiences lived in the context of work.

The dominance of the self-acceptance dimension shows that psychological well-being in the Millennial and Generation Z generations is more built through internal evaluation of self and work experience, than through aspects of autonomy or control of the environment externally. This pattern reflects that the psychological well-being of employees is not solely determined by the level of freedom or control of work, but by the extent to which the individual is able to come to terms with the roles, demands, and realities of the organization at hand.

In the context of this research model, psychological well-being dominated by the self-acceptance aspect acts as a psychological mechanism that bridges work attachment with trust in the organization. Employees who are able to accept themselves positively tend to assess work experience more adaptively, so they are more open to building a perception of trust in the organization.

Overall, the results of this study confirm that psychological well-being is an affective mechanism that explains how employee engagement contributes to the formation of organizational trust. Engagement results in positive work experiences that improve psychological well-being, and it is this psychological condition that forms the belief that the organization can be trusted. These findings are consistent with the theory, strengthened by previous research, supported by the empirical patterns of respondents, and relevant to the characteristics of Millennials and Generation Z. Thus, the second hypothesis is accepted.

### **3. Hypothesis 3 (H3): Perceptions of transformational leadership mediate the relationship between employee engagement and organizational trust**

The results of the mediation analysis showed that transformational leadership significantly mediated the relationship between employee engagement and organizational trust ( $\beta = .465$ ;  $t = 7,458$ ;  $p = .000$ ). When mediators were incorporated into the structural model, the direct influence of employee engagement on organizational trust was previously significant ( $\beta = .561$ ;  $p < .001$ ) turned out to be insignificant ( $\beta = .053$ ;  $p = .184$ ). This pattern indicates the

occurrence of full mediation, which means that work engagement does not directly increase trust, but works through employees' perceptions of transformational leadership qualities. Empirically, engagement first forms a positive perception of leaders, and this perception then fosters organizational trust.

Theoretically, this mechanism is in line with Transformational leadership Theory (Bass, 1985) which explains that transformational leaders build trust through four main components, namely idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Employee engagement makes employees experience positive interactions with leaders more often, so they are better able to recognize visionary behavior, authenticity, integrity, and personal care shown by leaders.

This perception of consistency and quality of behavior is in line with Trust Formation Theory (Mayer et al., 1995), which asserts that trust is formed when individuals judge leaders to have competence, integrity, and benevolence. In addition, Social Learning Theory (Bandura, 1977) explains that engagement makes employees more sensitive to the behavior of leaders and makes it easier to make them role models. It is through this process of observation and internalization that leadership perception becomes a relational cognitive pathway that translates engagement into trust.

The findings of this study are consistent with a number of empirical studies. Choi et al. (2022) show that transformational leadership strengthens organizational trust through the perception of competence and the quality of psychological relationships between leaders and employees. Al Saed & Al Saed (2023) affirm that transformational leaders increase subordinate trust especially when they demonstrate integrity, behavioral consistency, and the ability to empower the team.

Alatawi et al. (2023) found that transformational leadership increases engagement as well as creates positive emotional experiences, which ultimately strengthens trust. In line with these findings, Jena et al. (2018) show that engagement increases trust because engagement encourages positive perceptions of transformational leaders, and this perception channels the influence of engagement into organizational trust. Thus, empirical literature consistently supports transformational leadership as the primary mediator in the relationship between engagement and trust.

The descriptive pattern of the respondents in this study also strengthens this mechanism. The perception of transformational leadership is higher in generation Z ( $M = 77.94$ ) than in Millennials ( $M = 76.21$ ), which suggests that younger generations tend to be more responsive to inspiring, supportive, and vision-based leadership. This explains why engagement in Gen Z is easier to generate a positive perception of leaders, which in turn strengthens trust. In terms of tenure, the highest perception was found in respondents with a tenure of more than six years ( $M = 77.26$ ), indicating that long-term interactions allow employees to better recognize the consistency of leader behavior thereby strengthening the perception of leadership and trust. Thus, empirical patterns show that engagement functions as an initial trigger, while leadership perception is the pathway that channels the energy of that engagement into stable trust.

Based on the results of the convergent validity test, all dimensions of transformational leadership perception showed high and relatively equal outer loading values, namely idealized influence ( $\lambda = .908$ ), inspirational motivation ( $\lambda = .915$ ), intellectual stimulation ( $\lambda = .892$ ), and

individualized consideration ( $\lambda = .901$ ). These findings indicate that employees' perceptions of transformational leadership styles are comprehensively shaped through various complementary aspects of leadership.

There is no one dimension that conspicuously dominates the other, so the perception of transformational leadership in the Millennial and Generation Z generations in this study is not represented by a single aspect. Instead, employees interpret transformational leadership as a combination of leadership example, the ability to inspire, the drive to think innovatively, and individual attention to employee needs and development.

This pattern shows that young employees' trust in the organization is heavily influenced by consistent and well-rounded leadership experiences, not just charisma or inspiration. When leaders can present a clear vision, provide personal support, and create participatory and reflective spaces, employees are more likely to build a positive perception of the organization. In the context of this research model, the perception of transformational leadership that is formed in a multidimensional manner plays an important role as an important mechanism that bridges work attachment with the formation of trust in the organization.

Overall, the results of this study confirm that transformational leadership is a very strong cognitive mediating mechanism in the relationship between employee engagement and organizational trust. Engagement increases employee sensitivity to the quality and consistency of leader behavior, and it is this perception of leadership that forms the belief that the organization can be trusted. These findings are consistent with the core theory, supported by previous research, and reinforced by respondents' empirical patterns. Thus, the third hypothesis is accepted.

The full model statistical test showed that the influence of employee engagement on organizational trust was fully channeled through psychological well-being and transformational leadership perception. When both mediators were included in the model, the direct effect of employee engagement on organizational trust was previously significant ( $\beta = .561$ ;  $p < .001$ ) to be insignificant ( $\beta = .053$ ;  $p = .184$ ). In contrast, both mediated pathways showed significant effects, namely through psychological well-being ( $\beta = .043$ ;  $t = 2,068$ ;  $p = .039$ ) and especially transformational leadership ( $\beta = .465$ ;  $t = 7,458$ ;  $p = .000$ ). Overall, 90.4% of the engagement effect on trust was channeled through both mediators ( $VAF = .904$ ), confirming the occurrence of full dual mediation in this study model.

The integration of these two paths is in line with the Job Demands–Resources (JD-R) Model (Bakker & Demerouti, 2007), which states that engagement is a psychological energy that is supported by internal resources (psychological well-being) and external resources (leadership). The two resources work simultaneously as a channel mechanism for engagement towards trust, reinforcing the principle of Social Exchange Theory (Blau, 1964) that positive relationships in organizations develop through reciprocity of emotional experiences and credible interactions with leaders.

Several previous studies reinforce this dual mediation pattern. Jena et al. (2018) found that engagement forms trust through two parallel paths, namely psychological well-being and transformational leadership perception. Widanti & Sunaryo (2022) show that job resources increase engagement which then strengthens psychological well-being and leadership perception, which ultimately increases trust. Alatawi et al. (2023) emphasized that trust is the main mechanism that connects positive psychological conditions, leadership perceptions, and

engagement in the context of modern organizations. The consistency of these findings reinforces the dual mediation model tested in this study.

The empirical data pattern of respondents also supports the dual mediation mechanism. Based on descriptive data, engagement and psychological well-being are higher in the Millennial generation ( $EE = 35.85$ ;  $PWB = 68.61$ ), indicating that this group channeled engagement primarily through psychological stability. In contrast, perceptions of transformational leadership were higher in Generation Z ( $PTL = 77.94$ ), indicating that younger generations were more responsive to inspiring and supportive leadership behavior.

Organizational trust reached the highest in respondents with a tenure of more than six years ( $OT = 47.85$ ), a period when perceptions of leadership and psychological maturity are usually formed more stably. This pattern explains why the two mediators work in a complementary manner, namely the Millennial generation tends to channel engagement through well-being, while generation Z through leadership perception.

Based on the results of the convergent validity test, all dimensions of organizational trust show a high outer loading value and are in a relatively balanced range ( $\lambda$  Trust Organization = .954;  $\lambda$  Trust Supervisor = .954). These findings indicate that employee trust in the organization in this study was formed through a combination of perceptions of the organization's competence, integrity, consistency, loyalty, and openness.

This pattern shows that organizational trust in the Millennial and Generation Z generations does not rest on a single aspect, but is the result of a holistic evaluation of their work experience. Employees tend to build trust when the organization is considered able to act fairly, consistently, and reliably in fulfilling its commitments. In the context of this research model, organizational trust represents psychological outcomes that arise as a result of work attachment, psychological well-being, and perception of the leadership style felt by employees.

Overall, the results of this study show that employee engagement is a source of psychological energy that encourages the formation of organizational trust only when supported by psychological well-being and transformational leadership perceptions. Both mediators work as integrated affective and cognitive mechanisms.

The results of this study provide important implications for organizational management, especially in efforts to build and maintain organizational trust in Millennial and Generation Z employees. This indicates that a human resource management strategy is not enough to focus only on increasing work involvement instrumentally, but needs to be accompanied by the creation of supportive psychological conditions and leadership qualities that employees feel positive.

The key implication of these full mediation findings is the importance of organizations to integrate engagement policies with interventions oriented to psychological well-being and leadership development. Engagement enhancement programs such as challenging assignments, performance recognition, and career development opportunities need to be accompanied by a work environment that is psychologically safe, supports self-acceptance, and pays attention to the balance of demands and work resources.

These findings show that efforts to improve the psychological well-being of employees need to be directed not only at the structural aspects of work, but also at strengthening intrapersonal aspects, such as self-acceptance and the meaning of work experience, which in

this study appear to be more prominent in Millennial and Generation Z respondents. the dominant path in building employee trust in the organization.

For the management of Millennial and Generation Z employees, the results of this study confirm that trust in the organization is built through meaningful work experience, psychological support, and empathetic and inspirational leadership interactions. Therefore, organizations need to encourage leaders at the operational and mid-level to implement leadership practices that emphasize open communication, empowerment, and individualized attention. This approach not only contributes to increased engagement and well-being of young employees, but also strengthens organizational trust in an ongoing manner in the context of cross-generational work dynamics.

## CONCLUSION

This study revealed that employee engagement indirectly fosters organizational trust among Millennial and Generation Z employees in Indonesia's formal sector through full mediation by psychological well-being (via affective pathways like meaning and emotional stability) and perceptions of transformational leadership (via cognitive-relational pathways like integrity and inspiration), with Millennials responding more strongly to the former and Generation Z to the latter. These complementary mechanisms confirm that work involvement alone does not build trust; it requires positive psychological experiences and leadership perceptions. Limitations include the cross-sectional design (precluding longitudinal dynamics), restricted respondent demographics (formal sector, specific regions), and potential self-report bias, despite strong validity/reliability. For future research, studies should adopt longitudinal or mixed-methods designs, broaden samples across industries, organization sizes, and work modes (onsite, hybrid, remote), and incorporate outcomes like organizational commitment, turnover intention, job performance, or OCB to enhance generalizability and theoretical contributions.

## REFERENCES

- Albrecht, S. L., Bakker, A. B., Gruman, J. A., Macey, W. H., & Saks, A. M. (2015). Employee engagement, human resource management practices and competitive advantage: An integrated approach. *Journal of Organizational Effectiveness: People and Performance*, 2(1), 7–35. <https://doi.org/10.1108/JOEPP-08-2014-0042>
- Bass, B. M. (1985). *Leadership and performance beyond expectations*. Free Press.
- Bass, B. M., & Avolio, B. J. (1994). *Improving organizational effectiveness through transformational leadership*. Sage. <https://doi.org/10.4135/9781452231072>
- Bass, B. M., & Avolio, B. J. (1995). *MLQ multifactor leadership questionnaire: Permission set*. Mind Garden.
- Bauer, T. N., Morrison, E. W., & Callister, R. R. (1998). Organizational socialization: A review and directions for future research. *Academy of Management Review*, 23(2), 296–323. <https://doi.org/10.2307/259373>
- Breevaart, K., Bakker, A. B., Hetland, J., Demerouti, E., Olsen, O. K., & Espevik, R. (2014). Daily transactional and transformational leadership and daily employee engagement. *Journal of Occupational and Organizational Psychology*, 87(1), 138–157. <https://doi.org/10.1111/joop.12041>
- Chen, J., & Sriphon, T. (2021). Organizational trust, job satisfaction, and turnover intention: A study of hospitality workers in Thailand. *Sustainability*, 13(21), 11926.



- Employee Engagement and Organizational Trust Among Millennial and Generation Z Employees: The Mediating Role of Psychological Well-Being and Perception of Transformational Leadership In The Formal Sector In Indonesia*  
<https://doi.org/10.3390/su132111926>
- Center, P. R. (2023). *Generation Z and the future of work: Attitudes and expectations*. Pew Research Center. <https://www.pewresearch.org>
- Deloitte. (2023). *2023 Gen Z and millennial survey*. Deloitte Insights. <https://www2.deloitte.com/global/en/pages/about-deloitte/articles/genzmillennialsurvey.html>
- Diener, E., Oishi, S., & Tay, L. (2017). Advances in subjective well-being research. *Nature Human Behaviour*, 1(5), 253–260. <https://doi.org/10.1038/s41562-017-0135>
- Dirks, K. T., & Ferrin, D. L. (2002). Trust in leadership: Meta-analytic findings and implications for research and practice. *Journal of Applied Psychology*, 87(4), 611–628. <https://doi.org/10.1037/0021-9010.87.4.611>
- Edelman. (2024). *2024 Edelman trust barometer*. Edelman. <https://www.edelman.com/trust/2024-trust-barometer>
- Etikan, I., Musa, S. A., & Alkassim, R. S. (2016). Comparison of convenience sampling and purposive sampling. *American Journal of Theoretical and Applied Statistics*, 5(1), 1–4. <https://doi.org/10.11648/j.ajtas.20160501.11>
- Hakanen, J. J., & Schaufeli, W. B. (2012). Do burnout and work engagement predict depressive symptoms and life satisfaction? A three-wave seven-year prospective study. *Journal of Affective Disorders*, 141(2–3), 415–424. <https://doi.org/10.1016/j.jad.2012.02.043>
- Humaidah, A., & Mulyono, R. (2025). Adaptasi psychological well-being short scale pada mahasiswa. *Edukatif: Jurnal Ilmu Pendidikan*, 7(1). <https://doi.org/10.31004/edukatif.v7i1.7990>
- Jakpat. (2022). *Millennials and Gen Z outlook toward employment and workplace*. Jakpat Research. <https://jakpat.net>
- Jena, L. K., Pradhan, S., & Panigrahy, N. P. (2018). Pursuit of organizational trust: Role of employee engagement, psychological well-being and transformational leadership. *Asia-Pacific Journal of Business Administration*, 10(1), 56–69. <https://doi.org/10.1108/APJBA-02-2017-0017>
- Karatepe, O. M., Rezapouraghdam, H., & Hassandoust, F. (2023). Employee engagement and trust: A cross-cultural study in the service industry. *The Service Industries Journal*, 43(1–2), 1–21. <https://doi.org/10.1080/02642069.2022.2103154>
- Karatepe, O. M., Yavas, U., & Babakus, E. (2022). Does work engagement mediate the effect of work–family conflict on job outcomes? *International Journal of Contemporary Hospitality Management*, 34(1), 122–140. <https://doi.org/10.1108/IJCHM-02-2021-0137>
- Kline, R. B. (2011). *Principles and practice of structural equation modeling* (3rd ed.). Guilford Press.
- Kristiana, I. F., Fajrianthi, & Purwono, U. (2018). Analisis Rasch dalam Utrecht Work Engagement Scale-9 (UWES-9) versi Bahasa Indonesia. *Jurnal Psikologi*, 17(2).
- Lee, Y., Kim, S., & Lee, J. (2020). The effects of trust in organization on organizational citizenship behavior and job burnout: Focusing on the mediating effect of psychological empowerment. *International Journal of Environmental Research and Public Health*, 17(12), 4423. <https://doi.org/10.3390/ijerph17124423>
- Mayer, R. C., Davis, J. H., & Schoorman, F. D. (1995). An integrative model of organizational trust. *Academy of Management Review*, 20(3), 709–734. <https://doi.org/10.5465/amr.1995.9508080335>
- Nyhan, R. C., & Marlowe, H. A. (1997). Development and psychometric properties of the organizational trust inventory. *Evaluation Review*, 21(5), 614–635. <https://doi.org/10.1177/0193841X9702100505>

*Employee Engagement and Organizational Trust Among Millennial and Generation Z Employees: The Mediating Role of Psychological Well-Being and Perception of Transformational Leadership In The Formal Sector In Indonesia*

- Putra, M., & Dewi, S. (2023). Peran persepsi transformational leadership terhadap organizational trust pada generasi milenial dan Z. *Jurnal Psikologi dan Manajemen*, 15(1), 45–58.
- Ryff, C. D. (1995). Psychological well-being in adult life. *Current Directions in Psychological Science*, 4(4), 99–104. <https://doi.org/10.1111/1467-8721.ep10772395>
- Ryff, C. D., & Keyes, C. L. M. (1995). The structure of psychological well-being revisited. *Journal of Personality and Social Psychology*, 69(4), 719–727. <https://doi.org/10.1037/0022-3514.69.4.719>
- Schaufeli, W. B., & Bakker, A. B. (2003). *Utrecht work engagement scale: Preliminary manual* (Version 1.1). Utrecht University.
- Schaufeli, W. B., Bakker, A. B., & Salanova, M. (2006). The measurement of work engagement with a short questionnaire: A cross-national study. *Educational and Psychological Measurement*, 66(4), 701–716. <https://doi.org/10.1177/0013164405282471>
- Zheng, W., Geng, Y., & Huang, S. (2021). Transformational leadership and employees' trust in modern organizations. *Leadership & Organization Development Journal*, 42(4), 562–577. <https://doi.org/10.1108/LODJ-05-2020-0167>



© 2026 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY SA) license (<https://creativecommons.org/licenses/by-sa/4.0/>).