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The Influence of Transformational Leadership on Employee Retention: The Mediating Role of Coaching, Employee Engagement, and Organizational Commitment in The Indonesian Banking Industry During Digital Transformation

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Abstract: In the digital era, banks need to improve skills and optimize human resources to address customer challenges and offer the best financial services. High employee turnover rates in banking highlight the need for employee retention strategies. Research shows that transformational leadership is key to retention, influenced by factors such as coaching, employee engagement, and organizational commitment. This study aims to explore the combined effect of these factors on employee retention in the banking sector, which significantly contributes to the Indonesian economy. Quantitative methods were used in this study. This study used Structural Equation Modeling (SEM) Partial Least Squares (PLS) data analysis. The results showed that This study investigated the effect of transformational leadership on employee retention, coaching, employee engagement, and organizational commitment in a corporate environment. Using a hypothesis testing approach, this study tested ten different hypotheses, each focusing on different aspects of the impact of transformational leadership. Statistical analysis showed significant findings, with p-values consistently below the 0.05 threshold for Hypotheses 1 to 4, confirming that transformational leadership significantly influences employee retention, coaching, employee engagement, and organizational commitment. However, Hypothesis 5 showed no significant relationship between employee retention and coaching ($p = 0.053$). Specifically, Hypotheses 6 and 7 showed that employee engagement and organizational commitment positively influence employee retention, with p-values of 0.000 and 0.003, respectively. Furthermore, the mediation effect was assessed, revealing that employee engagement successfully mediated the relationship between transformational leadership and employee retention ($p = 0.000$), while organizational commitment also served as a mediator ($p = 0.008$). In contrast, training did not mediate this relationship ($p = 0.060$). These findings underscore the important role of transformational leadership in fostering a supportive work environment that enhances employee retention through engagement and commitment. This research is highly relevant for organizations.

Keywords: The Role of Coaching Mediation, Employee Engagement, Organizational Commitment

INTRODUCTION

The stability of a country's financial landscape is highly dependent on the performance of the banking sector, as this sector plays a key role as an intermediary in the distribution of funds, credit creation, and support of the national payment system (Meenakshi, 2024). Therefore, the health and resilience of the banking sector are essential foundations for macroeconomic growth. In Indonesia, this dynamic has become increasingly complex with the emergence of digital technology disruption and changing consumer preferences demanding faster, more accessible, and real-time services (Lindawati & Parwoto, 2021). Banks must transform their services from traditional methods to more convenient and flexible ones through technology. This change is challenging for companies, as it requires changes to systems, structures, and management that have been in place for years. Digital transformation is radical and can impact employees psychologically and emotionally (Leyer et al., 2020). One of the main challenges in digital transformation in banking is its impact on human resources (HR), particularly regarding employee competency, adaptability, and psychological well-being. If not addressed promptly and effectively, this can undermine employee morale, performance, and even loyalty. This is where HR management plays a crucial role, not only in training new skills but also in helping employees adapt mentally and emotionally. Without the support of employees who are ready and able to change, no matter how sophisticated the technology, it will not provide maximum results (Lindawati & Parwoto, 2021).

In 2021, a social trend called *The Great Resignation* or *The Big Quit* emerged, introduced by Anthony Klotz of Texas A&M University. This phenomenon first emerged in the United States, where 24 million workers chose to resign voluntarily, setting a new record. This trend spread globally, and by early 2022, another 4.5 million workers had also left their jobs (infobanknews.com, 2022). A survey showed that 74% of workers in the Asia Pacific region intended to resign, with Indonesia in second place, where 84% of workers intended to quit (Data Indonesia, 2022). The survey results can be illustrated in the graph below.

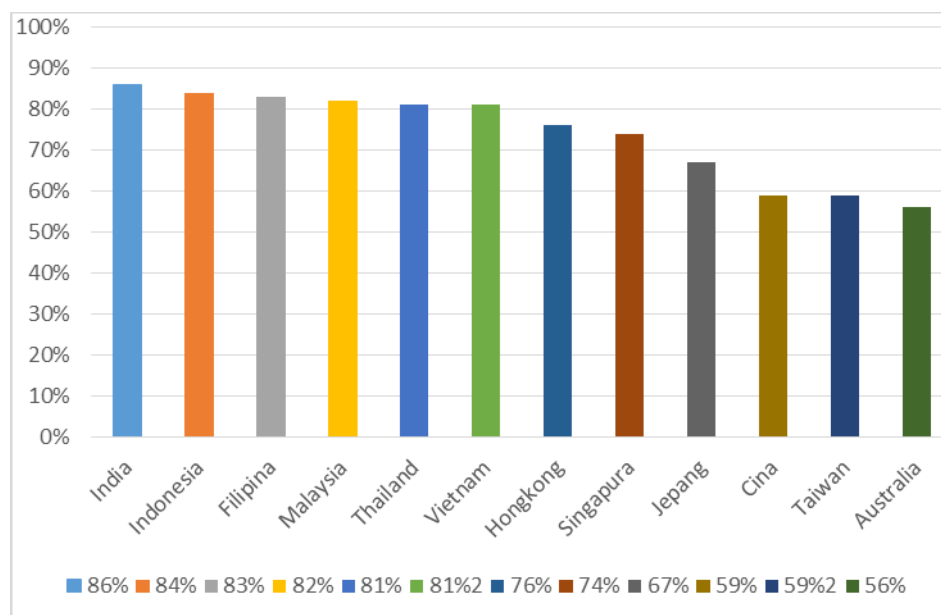


Figure 1. Intentional Turnover Rate of Asia Pacific Countries (Indonesia Data, 2022)

In terms of employment levels, entry-level employees dominate at 81%, followed by managers at 78%, and senior managers at 76%. Generation Z dominates at 76%, and Generation X and millennials dominate at 74% (infobanknews.com, 2022). Similarly, Forbes observed the phenomenon of "The Great Resignation" in 2021, as previously mentioned, a very large number of resignations occurred among Gen Z during the pandemic (Forbes, 2021). In 2021, an Adobe survey of 5,500 employees found that 56% of those aged 18 to 24 planned to leave their jobs in the following year. This is supported by research conducted by Microsoft and Bankrate, which found that 54% and 77% of Gen Z members were thinking about leaving their jobs, respectively (Forbes, 2021).

A survey conducted by Ipsos indicates that Gen Z will play a significant role in driving Indonesia's future economy. According to Ipsos, Gen Z will outnumber Millennials, who currently make up only 26% of the Indonesian population, and will lead Indonesia's economic transformation (Goodstats, 2024).

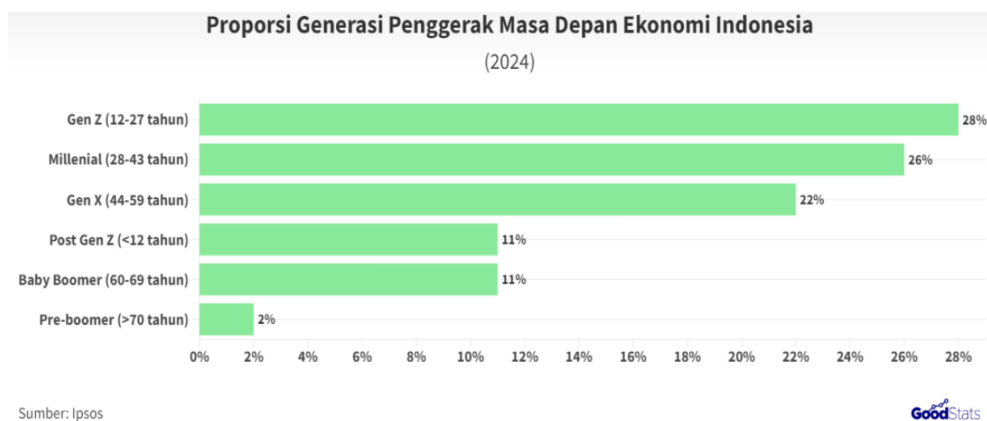


Figure 2. Proportion of the Generation Driving the Future of Indonesia's Economy

Economic development in the Generation Z era is heavily influenced by the deepening penetration of digital technology. In Indonesia, digital adoption has seen a sharp increase, rising from 52% in 2016 to approximately 80% in 2024 (Goodstats, 2024). Gen Z's characteristics are considered distinct from previous generations because they are the first generation to experience a world without the internet (Luttrell & McGrath, 2021). Furthermore, based on industry categories, data from Praisidio.com (2022) states that the financial services industry has the highest employee turnover rate, namely 13.03%, which can be seen in Figure 2. This causes the financial services sector to experience a fairly significant turnover rate, namely exceeding the 10% threshold (Joss Search, 2023).

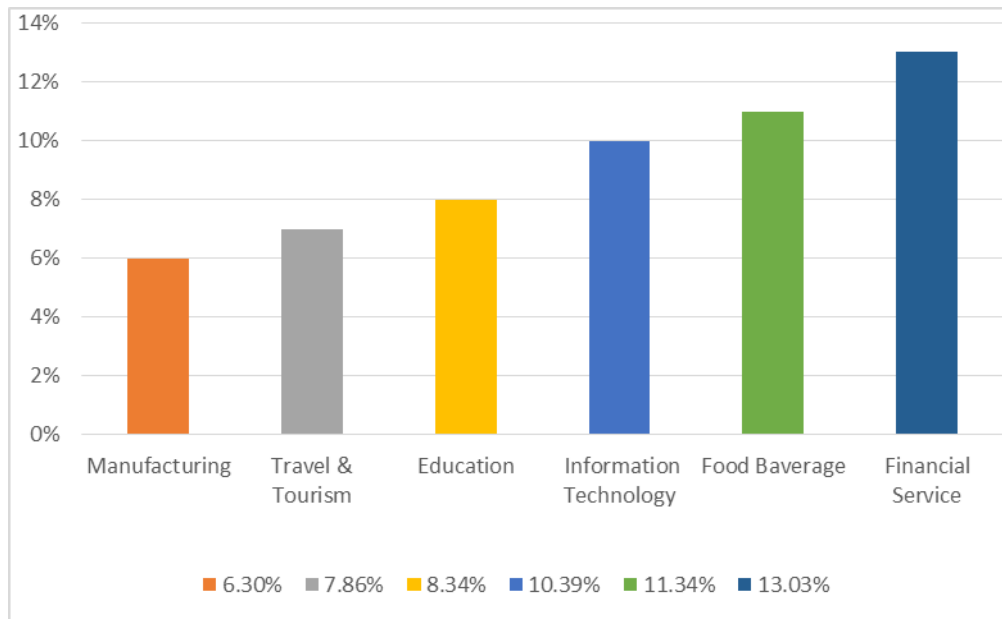


Figure 3. Employee Turnover Rates in Several Industries (Praisidio, 2022)

To address the turnover phenomenon in Indonesia within the financial services industry among Generation Z, there has been an increasing demand for retraining and skills upgrading in the financial services industry to retain employees in the long term (Meenakshi , 2024). Employee retention is crucial for an organization's competitive advantage and success. An organization needs to retain experienced employees who can provide excellent service. Employee retention is a key concern for adapting to business changes. It is a process that encourages employees to remain with the organization as long as possible (Ali et al., 2024).

In today's digital era, banks must prioritize skills development and optimize human resource utilization to address customer challenges and provide the best financial services. The banking sector relies heavily on the stability of a country's financial landscape, which is crucial for economic growth. However, with turnover rates in the banking industry at their highest in 2022, it is crucial for the banking industry to develop employee retention strategies to retain employees long-term. Therefore, research is needed to identify several factors that can influence employee retention rates.

Several previous studies have identified that transformational leadership is crucial for employee retention and achieving personal and organizational goals (Saeed & Jun, 2021). Transformational leadership was introduced by Bass (1985) and demonstrated a strong relationship between transformational leadership and employee retention (Yamin, 2020). Leadership plays a crucial role in employee retention (Tian, 2020). Transformational leadership is a key factor influencing employee retention (Ali et al., 2024). Although the study found that transformational leadership is a key factor in employee retention, other factors can strengthen the influence of transformational leadership on employee retention. Coaching factor is one of the factors that can be influenced by transformational leadership (Kao et al, 2021; Lee & Ding, 2020) and has an impact on employee retention (Reyes & Holladay, 2016; Alzen et al, 2021; Lyons & Bandura (2022). In addition, other factors, namely employee engagement , can also moderate the influence of transformational leadership on employee retention (Ali et al, 2024). Meanwhile, in other studies, the organizational commitment factor is one of the factors that can be influenced by transformational leadership (Afshari & Gibson, 2016) and has an impact on employee retention (Reyes & Holladay, 2016; Alzen et al, 2021; Lyons & Bandura (2022).

Entering the competitive business landscape of the digital era and the phenomenon of banking employee turnover are important reasons for banking human capital management to develop employee retention strategies. Therefore, this study will explain the consequences of digital transformation by combining factors that have never been studied simultaneously in a single study in previous studies. This study will identify the moderating role of coaching, employee engagement, and organizational commitment on the influence of transformational leadership on employee retention in the financial industry, especially banking. The focus on banking objects is due to The banking sector dominates the financial services industry in Indonesia, contributing 60% of the total GDP (Ministry of Finance, 2023).

METHOD

This study aims to examine the influence of transformational leadership on employee retention, incorporating the mediating roles of coaching, employee engagement, and organizational commitment within the Indonesian banking industry, particularly in the context of ongoing digital transformation. The research adopts an explanatory approach, focusing on causal relationships between the independent variable (transformational leadership), mediating variables (coaching, employee engagement, and organizational commitment), and the dependent variable (employee retention). As a causal study, it seeks to determine the extent to which transformational leadership contributes to employee retention. The research is conducted across five major banks in Indonesia, with individual banking employees serving as the unit of analysis.

A stratified random sampling method is employed to ensure that the selected sample represents the broader population of banking staff. Given the large and uncertain population size, the minimum sample size follows the recommendation of Hair et al. (2019), ranging between 100 and 200 respondents. The study applies probability sampling combined with a judgmental approach, where participants are selected based on specific criteria. These criteria include employees belonging to Generation Z (with a maximum age of 27 years) who hold permanent employment status within the respective banks.

This research utilizes a quantitative approach, with data collected through a structured survey as the primary instrument. The survey method is chosen for its efficiency in gathering standardized data from a large number of respondents, enabling robust statistical analysis. The instrument consists of several measurement scales adapted from prior studies. Employee retention is measured using seven items from Ali et al. (2024) based on Kyndt et al. (2009), while transformational leadership is assessed using 12 items derived from Keskes et al. (2018), covering four dimensions. Coaching is measured with 20 items adapted from Romao et al. (2022), originally developed by McLean et al. (2005).

Employee engagement is measured using the 17-item Utrecht Work Engagement Scale (UWES) as applied in Balwant et al. (2019), originally developed by Schaufeli et al. (2002). The instrument uses a seven-point Likert scale, where higher scores indicate higher engagement, and includes three subdimensions: vigor, dedication, and absorption. Organizational commitment is measured using 18 items from Keskes (2018), based on Meyer et al. (1993) and further refined by Powell and Meyer (2004), capturing affective, normative, and continuance commitment dimensions, each represented by six items.

For data analysis, this study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS version 4.0. The analysis consists of two main stages: evaluation of the measurement model (outer model) and the structural model (inner model). The outer model is assessed through tests of convergent validity, discriminant validity, Average Variance Extracted (AVE), Cronbach's alpha, and composite reliability. Meanwhile, the inner model is evaluated using R-square and Q-square values to determine predictive relevance. Hypothesis testing is conducted through path coefficient analysis and

bootstrapping procedures, where a hypothesis is considered significant if the p-value is less than 0.05 and the t-statistic exceeds 1.96.

RESULT AND DISCUSION

Evaluation of Measurement Model (*Outer Model*)

To ensure the research instrument's suitability for use, an evaluation of *the measurement model* was conducted , including validity and reliability tests. Validity tests aim to assess whether the measured constructs meet the requirements for further analysis. This validity reflects the extent to which the indicators in the model accurately and consistently represent the latent variables.

Convergent Validity

An indicator is considered convergently valid if the *outer loading value* exceeds 0.5. In this study, outer model testing was conducted to display these values, with the analysis carried out using SmartPLS software version 3.2.7.

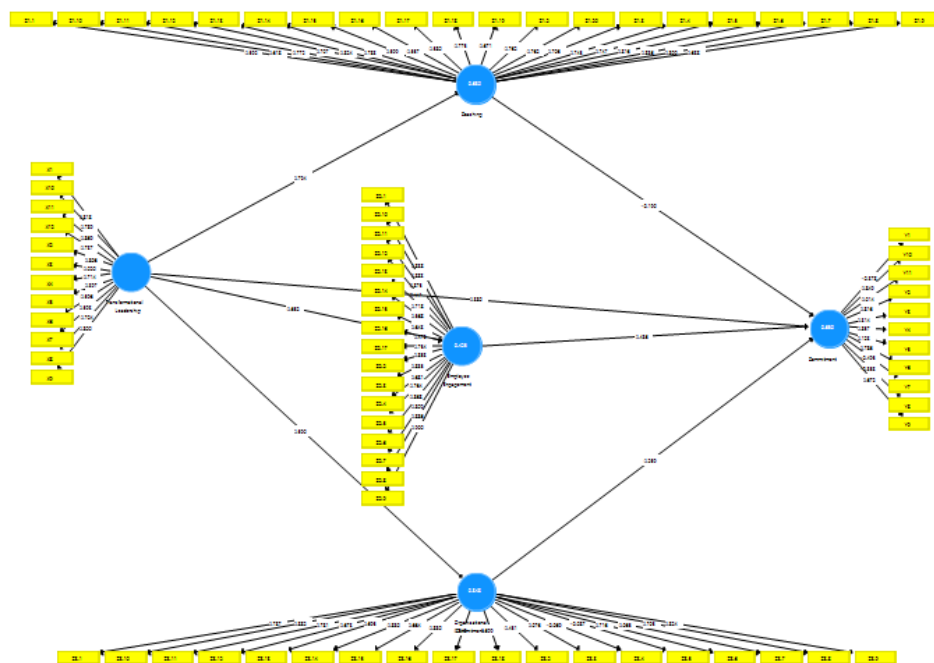


Figure 5 . Outer Model Test Results

Based on the analysis results shown in Figure 5, it is known that all 78 indicators analyzed have loading factor values above 0.5, indicating that each indicator meets the convergent validity criteria. To provide a more detailed overview of the loading factor values on the Transformational Leadership construct, the data are presented in Table 1.

Table 1. Loading Factor Value

Variable	Code	Loading Factor
Transformational Leadership	TL01	0.813
	TL02	0.846
	TL03	0.886
	TL04	0.841
	TL05	0.874
	TL06	0.772

Variable	Code	Loading Factor
	TL07	0.639
	TL08	0.883
	TL09	0.885
	TL10	0.975
	TL11	0.815
	TL12	0.834
Employee Retention	ER01	0.819
	ER02	0.822
	ER03	0.760
	ER04	0.850
	ER05	0.663
	ER06	0.892
	ER07	0.786
	ER08	0.855
	ER09	0.934
	ER10	0.628
	ER11	0.776
Coaching	C01	0.706
	C02	0.772
	C03	0.934
	C04	0.900
	C05	0.875
	C06	0.785
	C07	0.791
	C08	0.795
	C09	0.807
	C10	0.819
	C11	0.810
	C12	0.767
	C13	0.775
	C14	0.816
	C15	0.806
	C16	0.774
	C17	0.799
	C18	0.782
	C19	0.703
	C20	0.830
Employee Engagement	EE01	0.929
	EE02	0.879
	EE03	0.936

Variable	Code	Loading Factor
	EE04	0.810
	EE05	0.836
	EE06	0.759
	EE07	0.839
	EE08	0.734
	EE09	0.860
	EE10	0.947
	EE11	0.914
	EE12	0.677
	EE13	0.740
	EE14	0.951
	EE15	0.681
	EE16	0.956
	EE17	0.910
Organizational Commitment	OC01	0.811
	OC02	0.836
	OC03	0.899
	OC04	0.816
	OC05	0.853
	OC06	0.877
	OC07	0.830
	OC08	0.922
	OC09	0.883
	OC10	0.881
	OC11	0.658
	OC12	0.709
	OC13	0.684
	OC14	0.945
	OC15	0.775
	OC16	0.657
	OC17	0.831
	OC18	0.860

Based on the combined table above, all indicators across the variables of transformational leadership, employee retention, coaching, employee engagement, and organizational commitment show loading factor values exceeding the minimum threshold of 0.5. This indicates that all measurement items have adequate convergent validity and are able to represent their respective constructs effectively. Although several indicators, such as TL07, ER10, EE12, and OC16, have relatively lower loading values compared to others, they still meet the acceptable criteria and therefore do not require elimination. Overall, these results confirm that the measurement model is valid and suitable for further analysis in the structural model without the need for indicator removal.

Composite Reliability

The values of these three indices are presented in Table 2.

Table 2 Composite Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Coaching	0.967	0.971	0.970	0.621
Commitment	0.763	0.867	0.765	0.674
Employee Engagement	0.972	0.981	0.975	0.703
Organizational Commitment	0.965	0.978	0.965	0.617
Transformational Leadership	0.894	0.941	0.913	0.662

Based on Table 2, all variables show results that meet the reliability and validity test criteria, where the *Average Variance Extracted* (AVE) value is above 0.5 and *Composite Reliability* exceeds 0.7. Thus, it can be concluded that all tested constructs are declared valid and reliable, so it is worthy to proceed to the structural model testing stage (*inner model*).

Structural Model Evaluation (Inner Model)

The structural model was evaluated by examining the *R-square values* of the endogenous constructs to determine the amount of variance explained by the model. Furthermore, a *Q-square test* was conducted using the *Stone-Geisser approach* to assess the model's *predictive relevance* (Q^2). Furthermore, the significance of the relationships between latent variables was analyzed by examining the path coefficients in the structural model.

R-Square (R^2)

Information regarding these values is presented in detail in Table 3.

Table 3 R Square

	R Square	R Square Adjusted
Coaching	0.630	0.628
Employee Retention	0.650	0.641
Employee Engagement	0.425	0.421
Organizational Commitment	0.348	0.344

From the results R^2 in Table 7 it shows that the value R^2 Coaching is 0.628, Employee Retention is 0.641, Employee Engagement is 0.425 and Organizational Commitment is 0.344. Mark the show that Coaching, Employee Engagement, and Organizational Commitment has an influence on the *Employee Retention variable* of 64.1 percent, while Transformational Leadership has an influence on Coaching of 62.8%. Transformational Leadership on Employee Engagement is 42.5%, Transformational Leadership on Organizational Commitment is 34.4% and the rest is influenced by other variables outside the variables in this study.

Significance Test (Bootstrapping)

In this study, a hypothesis is declared significant or accepted if the *t-statistic value* is greater than 1.96 and/or the *p-value* is less than 0.05. Conversely, if these values do not meet the criteria, then the null hypothesis (H_0) is accepted and the alternative hypothesis (H_a) is rejected.

Table 4. t-statistic results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Coaching -> Employee Retention	-0.190	-0.190	0.098	1,938	0.053
Employee Engagement -> Employee Retention	0.436	0.423	0.080	5,473	0.000
Organizational Commitment -> Employee Retention	0.259	0.276	0.086	3,014	0.003
Transformational Leadership -> Coaching	0.794	0.801	0.042	19,079	0.000
Transformational Leadership -> Employee Retention	0.380	0.381	0.095	3,987	0.000
Transformational Leadership -> Employee Engagement	0.652	0.657	0.063	10,299	0.000
Transformational Leadership -> Organizational Commitment	0.590	0.598	0.075	7,862	0.000
Transformational Leadership -> Coaching -> Employee Retention	-0.151	-0.153	0.080	1,882	0.060
Transformational Leadership -> Employee Engagement -> Employee Retention	0.284	0.278	0.059	4,779	0.000
Transformational Leadership -> Organizational Commitment -> Employee Retention	0.15	0.165	0.058	2,652	0.008

Test Hypothesis

The first hypothesis examines the influence of Transformational Leadership on Employee Retention. The results show a p-value of 0.000, which is below the significance level of 0.05. This indicates that the relationship is statistically significant. Therefore, H_0 is rejected and H_a is accepted. Transformational Leadership is proven to have a direct effect on Employee Retention. This finding highlights the importance of leadership style in retaining employees.

The second hypothesis analyzes the influence of Transformational Leadership on Coaching. The p-value obtained is 0.000, which is less than 0.05. This confirms that the relationship is significant. Thus, H_0 is rejected and H_a is accepted. Transformational Leadership significantly influences Coaching practices. This suggests that leaders play a role in shaping coaching behaviors in organizations.

The third hypothesis evaluates the effect of Transformational Leadership on Employee Engagement. The statistical results show a p-value of 0.000. Since this value is below 0.05, the relationship is significant. Therefore, H_0 is rejected and H_a is accepted. Transformational Leadership has a significant impact on Employee Engagement. This implies that effective leadership enhances employee involvement and enthusiasm at work.

The fourth hypothesis examines the influence of Transformational Leadership on Organizational Commitment. The p-value result is 0.000, indicating significance. This value

is below the 0.05 threshold. Thus, H_0 is rejected and H_a is accepted. Transformational Leadership significantly affects Organizational Commitment. This shows that leadership contributes to strengthening employees' loyalty to the organization.

The fifth hypothesis tests the influence of Coaching on Employee Retention. The results indicate a p-value of 0.053, which is above 0.05. This means the relationship is not statistically significant. Therefore, H_0 is accepted and H_a is rejected. Coaching does not have a significant effect on Employee Retention. This suggests that coaching alone may not be sufficient to retain employees.

The sixth hypothesis analyzes the effect of Employee Engagement on Employee Retention. The p-value obtained is 0.000, which is below 0.05. This indicates a significant relationship. Thus, H_0 is rejected and H_a is accepted. Employee Engagement significantly influences Employee Retention. This finding shows that engaged employees are more likely to stay in the organization.

The seventh hypothesis evaluates the influence of Organizational Commitment on Employee Retention. The statistical result shows a p-value of 0.003. Since this value is below 0.05, the relationship is significant. Therefore, H_0 is rejected and H_a is accepted. Organizational Commitment has a significant effect on Employee Retention. This implies that committed employees tend to remain in the organization longer.

The eighth hypothesis examines whether Coaching mediates the relationship between Transformational Leadership and Employee Retention. The p-value is 0.060, which exceeds 0.05. This indicates that the mediating effect is not significant. Thus, H_0 is accepted and H_a is rejected. Coaching does not mediate the relationship significantly. This suggests that the indirect role of coaching is limited in this context.

The ninth hypothesis analyzes the mediating role of Employee Engagement between Transformational Leadership and Employee Retention. The results show a p-value of 0.000. This value is below the significance threshold of 0.05. Therefore, H_0 is rejected and H_a is accepted. Employee Engagement significantly mediates the relationship. This indicates that leadership improves retention through increasing engagement.

The tenth hypothesis evaluates whether Organizational Commitment mediates the relationship between Transformational Leadership and Employee Retention. The p-value obtained is 0.008, which is less than 0.05. This confirms a significant mediating effect. Thus, H_0 is rejected and H_a is accepted. Organizational Commitment significantly mediates the relationship. This shows that leadership enhances retention by strengthening employees' commitment.

CONCLUSION

Based on the analysis results described previously, it can be concluded that Transformational Leadership has a positive influence on Employee Retention, Coaching, Employee Engagement, and Organizational Commitment. This finding is consistent with Yamin's (2020) statement, which states that there is a significant relationship between transformational leadership style and organizational effectiveness in retaining its employees. On the other hand, according to Kao et al. (2021) and Lee & Ding (2020), transformational leadership can also have an influence on coaching. Ali et al. (2024) also argue that there is another factor, namely Employee Engagement, which can also be influenced by Transformational Leadership. Afshari & Gibson (2016) also argue that organizational commitment is one of the factors that can be influenced by transformational leadership. In addition, Employee Engagement has been shown to have a positive influence on Employee Retention as shown by a contribution coefficient of 0.436 with statistical significance (p-value 0.000), as well as Organizational Commitment which shows a positive relationship to Employee Retention with a moderate contribution coefficient of 0.259 (p-value 0.003),

which indicates that employees' emotional attachment to the company also strengthens their desire to stay. This finding is consistent with the results of research presented by Ali et al. (2024). However, the Coaching variable does not show a significant influence on Employee Retention, and does not act as a mediator in the relationship between Transformational Leadership and Employee Retention with a small negative coefficient (-0.190) and a p-value of 0.053 which is close to the significance limit, but is still included in the statistically insignificant category. In addition, coaching does not act as a significant mediator in the relationship between Transformational Leadership and Employee Retention. These findings contradict the views of Reyes and Holladay (2016), Alzen et al. (2021), and Lyons and Bandura (2022), who stated that coaching is a factor that can strengthen the influence of transformational leadership on employee retention. However, this research remains in line with the findings of these three studies, stating that employee engagement and organizational commitment can act as significant mediators in bridging the influence of transformational leadership on employee retention.

The findings of this study provide several important implications for academics and practitioners in the field of human resource management, particularly in the banking industry, which is currently undergoing a digital transformation process. From a theoretical perspective, the results of this study also enrich scientific studies regarding the relationship between transformational leadership, coaching, employee engagement, organizational commitment, and employee retention. This study confirms that transformational leadership plays a significant role in driving employee retention, both directly and through the mediating role of other variables. However, the finding of the insignificant effect of coaching on employee retention raises new questions regarding the effectiveness of coaching programs in building employee loyalty to the organization. These results challenge previous findings that stated that coaching has a positive contribution to retention, so further research is needed to explore contextual factors that may influence the effectiveness of coaching in various industrial sectors.

From a practical perspective, the results of this study indicate that organizations, particularly in the banking sector, need to evaluate their coaching strategies. If coaching is to be used as a tool to increase employee retention, adjustments need to be made to ensure the program truly delivers benefits to employees. Organizations can improve coaching effectiveness by ensuring that the program is designed holistically, encompassing aspects of career development, skills enhancement, and psychological support for employees. Furthermore, coaching needs to be more focused on providing concrete solutions to work challenges and growth opportunities within the organization to increase employee loyalty.

Furthermore, organizations need to consider other factors that have a stronger influence on employee retention, such as employee engagement and organizational commitment. Companies can strengthen employee engagement and commitment through policies that support employee well-being, work-life balance, and clearer career development opportunities. Transformational leadership must also be implemented more systematically to build an organizational culture that can foster long-term employee engagement and loyalty.

Another implication of this research is the need for a more personalized approach in designing coaching programs. Not all employees have the same needs and expectations from coaching so a more flexible, individual-centered approach can increase its effectiveness. Organizations can segment employees based on their experience level, position, and career aspirations before implementing a coaching program. Furthermore, companies need to ensure that leaders and managers conducting coaching are adequately competent in providing guidance and support to their employees.

Overall, this research provides insights for organizations in developing more effective employee retention strategies. While transformational leadership has been shown to be an

influential factor in improving employee retention, organizations also need to develop more comprehensive strategies by strengthening employee engagement and commitment and ensuring that the *coaching programs* implemented truly align with employee needs and expectations.

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