

INVESTIGATING THE NEXUS OF JOB SATISFACTION, TRANSFORMATIONAL LEADERSHIP, AND EMPLOYEE LOYALTY ON GEN-Z EMPLOYEES: EVIDENCE FROM JAKARTA

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Abstract

Employee loyalty is a critical factor in ensuring organizational sustainability, particularly in managing the emerging Gen-Z workforce. Previous studies have shown inconsistent findings regarding the influence of job satisfaction and transformational leadership on employee loyalty, indicating a theoretical and empirical research gap. This study aims to develop Social Exchange Theory (SET) by examining the role of job satisfaction and transformational leadership in fostering employee loyalty among Gen-Z employees in Jakarta. A quantitative approach was employed using purposive sampling as a non-probability sampling technique, resulting in 151 valid responses from a total population of 797,394 Gen-Z workers. Data were analyzed using Structural Equation Modeling with Partial Least Squares (SEM-PLS) via SmartPLS 4.0 software. The results show that job satisfaction has a significant and positive effect on employee loyalty, confirming the relevance of reciprocal relationships emphasized in SET. However, transformational leadership was found to have no significant effect on employee loyalty, suggesting that leadership style alone may not directly influence Gen-Z's commitment without the presence of other mediating factors. The study concludes that enhancing job satisfaction is a more effective strategy in building loyalty among Gen-Z employees than relying solely on leadership style. These findings have practical implications for human resource practitioners and organizational leaders in designing employee retention strategies tailored to younger generations. Future research is recommended to explore potential mediators or moderators in the relationship between leadership and loyalty.

Keywords: Employee Loyalty, Job Satisfaction, Transformational Leadership

INTRODUCTION

The Central Statistics Agency (Badan Pusat Statistik, 2024) stated that approximately 26.52% of the total workforce in Indonesia and 24.17% of the total workforce in the Special Capital Region of Jakarta (DKI Jakarta) consist of individuals born between 1995 and 2010, classified as Generation Z (Gen-Z) (Mahapatra et al., 2022). Gen-Z is characterized by unique traits, including independence, tolerance, creativity, self-confidence, and open-mindedness (Kuczerska & Smolag, 2018). However, a significant issue arises from the fact that 69% of Gen-Z employees intend to resign from their current jobs (Salsablla, 2024), creating this phenomenon a critical issue that has attracted concern from employers (Darmawan et al., 2020).

Employee Loyalty plays a crucial role in organizational sustainability, highlighting the importance of effective human resource management in fostering a productive and committed work environment (Sumaryathi & Dewi, 2020). Loyal employees are key assets which reflect an organization's internal strength and long-term development. By

assessing employee loyalty, organizations may construct strategic interventions to enhance motivation, behavior, and overall productivity (Hewitt, 2012).

In exploring the relationship between employees and organization, elements of reciprocity, such as rewards and mutual benefits, are essential. Blau (1964), through his Social Exchange Theory (SET), posits that the employee-organization relationship is reciprocal in nature. If employee perceive fairness and appreciation from the organization, they are more likely to respond with loyalty and other positive behaviors. According to Olli et al (2024), employee loyalty can be measured through dimensions which consist of sense of ownership, trust, and willingness to stay.

Previous studies suggest that employee loyalty is influenced by factors such as job satisfaction (Wages et al., 2024; Yang & Dini, 2023; Zakaria et al., 2019) and transformational leadership (Septiyarini et al., 2024; Reza & Yuliharsi, 2024; Yondonrenchin et al., 2023). On the other hand, these findings remain inconclusive, as some scholars have presented differing perspectives. For instance, Giovanni & Ie (2022) and Kahpti et al (2020) argue that job satisfaction does not significantly influence employee loyalty, while Bano et al (2023) contend that transformational leadership does not affect employee loyalty. These discrepancies indicate a research gap concerning the relationships among these variables.

Furthermore, many previous studies have not focused specifically on a single generational cohort, despite the fact that each generation possesses distinct characteristics. Moreover, prior research often concentrated on a single company or specific industry. In light of the research gap and the need for broader research with larger and more diverse samples across sectors, as recommended by Lestari & Putra (2024), this study aims to examine the potential influence of job satisfaction and transformational leadership on Gen-Z employee loyalty in DKI Jakarta.

According to the above-mentioned, the research model of this study can be seen on Fig. 1 with the proposed hypothesis as follows:

H1. Job Satisfaction significantly has positive influence towards Employee Loyalty.

H2. Transformational Leadership significantly has positive influence towards Employee Loyalty.

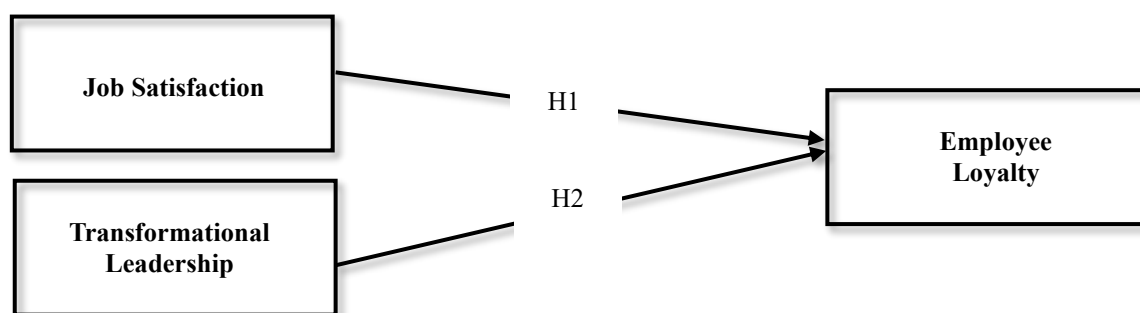


Figure 1. Research Model

RESEARCH METHOD

This study employs a quantitative research approach using a casual research design, which fundamentally examines cause-and-effect relationship between variables, consisting of independent and dependent variables (Sugiyono, 2018). The population in this study comprises all Gen-Z employees (born between 1995 and 2010) working in DKI

Jakarta. The data used in this research are primary data, collected through the distribution of questionnaires via Google Forms to Gen-Z individuals employed in DKI Jakarta. The questionnaire consisted of 15 items using a 5 point Likert scale, and to obtain interval data, a semantic differential scale was applied. Responses to each item were structured on a semantic differential scale, where positive responses were positioned on the far right and negative responses on the far left, expressed in terms such as: a score of 1 indicating “Strongly Disagree” and a score of 5 indicating “Strongly Agree”.

RESULTS AND DISCUSSION

A total of 156 questionnaires were successfully collected in this study, with 151 respondents meeting the criteria to be included in the sample. This number meets the minimum sample requirement based on a 10:1 ratio in which 150 respondents as suggested by Hair et al (2018, as cited in Memon et al., 2020). Data analysis was conducted using SmartPLS 4.0 software, employing the Partial Least Squares (PLS) method, a variance-based Structural Equation Modeling (SEM) technique. This approach allows for the simultaneous testing of the measurement model (outer model) and the structural model (inner model) (Abdillah & Hartono, 2015).

Validity Testing

Convergent Validity

To assess convergent validity, the Average Variance Extracted (AVE) for each construct must exceed the threshold value of 0.50 (Beneke et al., 2013), indicating that convergent validity is established within the model. Based on the validity test results, all AVE values for each construct were found to be greater than 0.50, suggesting that the measurement instruments used in this study are valid. The results are presented as follows:

Table 1. Average Variance Extracted (AVE)

| Variable(s) | AVE | Critical Values | Information |
|----------------------------------|-------|-----------------|-------------|
| Employee Loyalty (Y) | 0.628 | > 0.5 | Valid |
| Job Satisfaction (X1) | 0.601 | | Valid |
| Transformational Leadership (X2) | 0.831 | | Valid |

Discriminant Validity

This test was conducted to demonstrate that Average Variance Extracted (AVE) is greater than the squared correlations between constructs, as observed through the cross-loading results (Beneke et al., 2013). The results of the discriminant validity assessment are presented as follows:

Table 2. Discriminant Validity

| | Employee Loyalty | Job Satisfaction | Transformational Leadership |
|------------|------------------|------------------|-----------------------------|
| EL1 | 0.743 | 0.507 | 0.341 |
| EL2 | 0.799 | 0.544 | 0.310 |
| EL3 | 0.776 | 0.689 | 0.508 |
| EL4 | 0.891 | 0.711 | 0.538 |
| EL5 | 0.744 | 0.483 | 0.309 |
| JS1 | 0.519 | 0.690 | 0.869 |
| JS2 | 0.618 | 0.852 | 0.502 |

| | Employee Loyalty | Job Satisfaction | Transformational Leadership |
|-----|------------------|------------------|-----------------------------|
| JS3 | 0.662 | 0.817 | 0.479 |
| JS4 | 0.661 | 0.824 | 0.379 |
| JS5 | 0.421 | 0.674 | 0.392 |
| TL1 | 0.525 | 0.661 | 0.931 |
| TL2 | 0.481 | 0.637 | 0.957 |
| TL3 | 0.472 | 0.591 | 0.926 |
| TL4 | 0.482 | 0.600 | 0.905 |
| TL5 | 0.416 | 0.519 | 0.834 |

Reliability Testing

Based on the reliability test results for all constructs, both the composite reliability scores and the Cronbach's alpha coefficients exceeded the threshold of 0.70, indicating that the measurement used in this study is reliable and dependable. This suggests that the instrument meets the accepted standards of reliability, as the composite reliability $\alpha > 0.7$ (Sihombing et al., 2023) and the Cronbach's alpha coefficient $\alpha > 0.5$ (Tan, 2009).

Table 3. Construct Reliability

| | Cronbach's alpha | Composite reliability (rho_a) | Composite reliability (rho_c) | Critical Value | Information |
|----------------------------------|------------------|-------------------------------|-------------------------------|---|-------------|
| Employee Loyalty (Y) | 0.852 | 0.869 | 0.893 | Cronbach's Alpha > 0.5 dan Composite Reliability >0.7 | Reliable |
| Job Satisfaction (X1) | 0.832 | 0.850 | 0.882 | | Reliable |
| Transformational Leadership (X2) | 0.949 | 0.953 | 0.961 | | Reliable |

Outer Loadings Testing

According to the indicator assessment results in representing the constructs (latent variables), it was found that all outer loading values exceeded 0.50. In other words, each indicator used in this study is appropriate and effectively represents its corresponding construct (Beneke et al., 2023).

Table 4. Outer Loadings

| | Indicator(s) | Loading Factor | Critical Values | Information |
|------------------------------|--|----------------|-----------------|-------------|
| Employee Loyalty (Y) | | | | |
| EL1 | Always say positive things when getting the opportunity in front of the public | 0.743 | > 0.5 | Valid |
| EL2 | Having sense of belonging to the company | 0.799 | | Valid |
| EL3 | Trust towards management at the firm resolves employee complaints | 0.776 | | Valid |
| EL4 | Willing to choose the company even there are choices | 0.891 | | Valid |
| EL5 | Will rarely look for a new job | 0.744 | | Valid |
| Job Satisfaction (X1) | | | | |
| JS1 | Satisfied with the way supervisors handle their subordinates | 0.690 | > 0.5 | Valid |
| JS2 | Satisfied with the competition for the job | 0.852 | | Valid |

| | Indicator(s) | Loading Factor | Critical Values | Information |
|---|--|----------------|-----------------|-------------|
| JS3 | Satisfied with the increasing position in the company | 0.817 | | Valid |
| JS4 | Satisfied for can be someone in the society | 0.824 | | Valid |
| JS5 | Satisfied for accomplish the job | 0.674 | | Valid |
| Transformational Leadership (X2) | | | | |
| TL1 | Inspired by the leader | 0.931 | | Valid |
| TL2 | The leader leads by example | 0.957 | | Valid |
| TL3 | The leader unite the team | 0.926 | | Valid |
| TL4 | The leader show respect for my personal feelings | 0.905 | > 0.5 | Valid |
| TL5 | The leader has ideas that have challenged me to reexamine some of my basic assumptions about my work | 0.834 | | Valid |

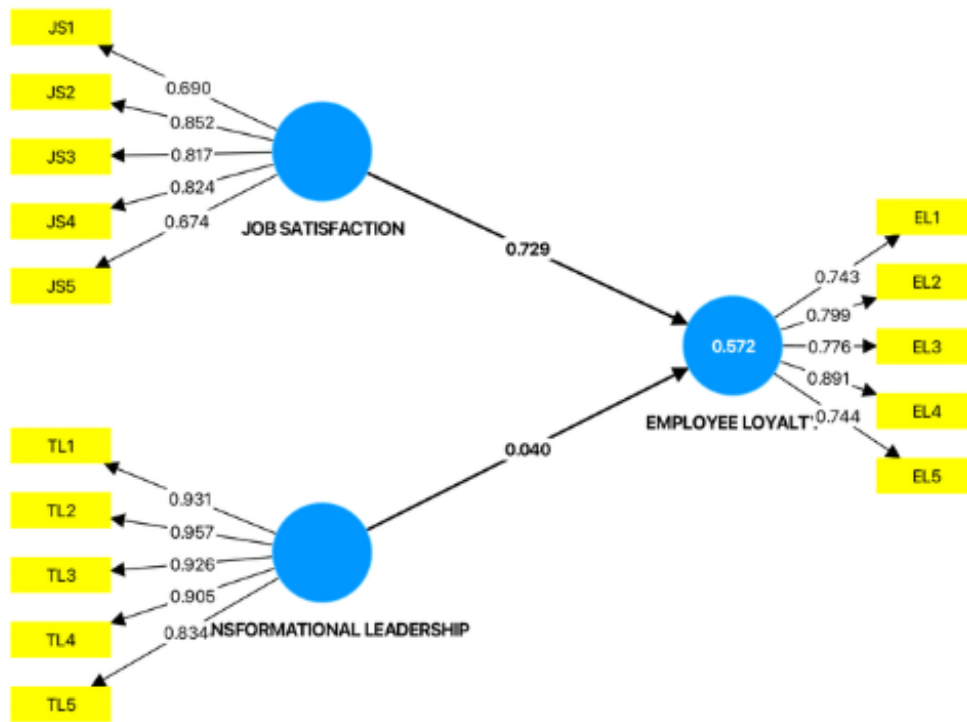


Figure 2. Outer Model

Inner Model Testing

This test aims to examine the correlation between the constructs measured in this study by evaluating the R-Square (R^2) values of the model, which indicate the extent to which the independent variables influence the dependent variable within the research framework. The results of the model fit assessment in this study are presented as follows:

| Variabel | R-Square | R-Square Adjusted |
|----------------------|----------|-------------------|
| Employee Loyalty (Y) | 0.572 | 0.566 |

Based on the output in Table 5, the R-Square value for the Employee Loyalty variable is 0.572. Referring to the classification proposed by Hair et al (2018, as cited in Memon et al., 2020), $R^2 > 0.75$ = substantial, $0.50 < R^2 < 0.75$ = moderate, and $R^2 < 0.50$ = weak. Thus, the model in this study falls within the moderate category, indicating that the independent variables can adequately explain the dependent variable. In other words, Employee Loyalty is influenced by Job Satisfaction and Transformational Leadership by 57%, while the remaining 43% is influenced by other variables not included in the model.

Hypothesis Testing

Hypothesis testing was conducted by examining the p-values and comparing the t-statistics to the critical t-value. A hypothesis is accepted if the t-statistic exceeds the t-table value and the p-value is less than the significance level (α). According to Abdillah & Hartono (2015), a hypothesis can be accepted if t-statistic > 1.96 and p-value < 0.05 , otherwise it is rejected. Hypothesis testing in this study was carried out through the bootstrapping analysis method in SmartPLS 4.0, in order to mitigate potential issues related to non-normal data distribution. The results of the bootstrapping analysis are as follows:

Table 6. Path Coefficient

| Hypothesis | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistic (O/STDEV) | P Values |
|--|---------------------|-----------------|----------------------------|-----------------------|--------------|
| Job Satisfaction (X1) -> Employee Loyalty (Y) | 0.729 | 0.729 | 0.073 | 9.944 | 0.000 |
| Transformational Leadership (X2) -> Employee Loyalty (Y) | 0.040 | 0.048 | 0.074 | 0.545 | 0.586 |

Based on the output in Table 6, the results of the hypothesis testing are as follows:

- 1) Hypothesis 1 (H1): The results indicate that job satisfaction has a positive and significant effect on employee loyalty. Based on the bootstrapping results (path coefficients), the t-statistic (9.944) is greater than the t-table value (1.96) and the p-value (0.0000) is less than α (0.05). Therefore, the first hypothesis is accepted, suggesting that job satisfaction significantly and positively influences employee loyalty. These findings are consistent with the results of previous studies by Waqas et al (2024), Yang & Dini (2023), and Zakaria et al (2019).
- 2) Hypothesis 2 (H2): The results show that transformational leadership does not have a significant effect on employee loyalty. Based on the bootstrapping results (path coefficients), the t-statistic (0.545) is less than the t-table value (1.96) and the p-value (0.586) is greater than α (0.05). Therefore, the second hypothesis is rejected, indicating that transformational leadership does not significantly influence employee loyalty. This findings are consistent with the results of previous studies by Bano et al (2023), in which contradict against the findings from Septyarini et al (2024), Reza & Yuliharsi (2024), and Yondorenchin et al (2023).

CONCLUSION

This study demonstrates that job satisfaction has a positive and significant effect on the loyalty of Gen-Z employees working in DKI Jakarta. The higher the level of job satisfaction experienced by employees, the higher their level of loyalty, suggesting that enhancing job satisfaction could be an effective strategy for mitigate the risks of high

employee turnover. Therefore, it is essential for human resource management to formulate strategies aimed at increasing job satisfaction among Gen-Z employees within their organizations. On the other hand, the findings also reveal that transformational leadership has a very weak influence on employee loyalty. This implies that even if an organization implements transformational leadership practices, it may not significantly affect employee loyalty. This phenomenon may be attributed to the unique and independent characteristics of Gen-Z, who may not place as much importance on leadership figures in shaping their workplace sentiments.

However, this study is not without limitations. Approximately 43% of the variance in employee loyalty remains unexplained, suggesting that other variables not included in this model may influence employee loyalty and should be explored in future research. Moreover, job satisfaction itself can be influenced by various additional factors, and indentifying those factors can help future researchers provide stronger recommendations to business practitioners. These insights can support the development of strategic initiatives aimed at enhancing job satisfaction, which in turn may lead to improved loyalty among Gen-Z employees in DKI Jakarta.

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