

The effect of transformational leadership climate on employee engagement during digital transformation in Indonesian banking industry

Shinta Winasis^{a*}, Djumarno^b, Setyo Riyanto^c and Eny Ariyanto^c

^aDoctoral Program University of Mercu buana, Jakarta, Republic of Indonesia

^bAssociate Professor University of Mercu buana, Jakarta, Republic of Indonesia

^cGraduate School of Management, Mercu Buana University, Jakarta, Republic of Indonesia

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ABSTRACT

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The industrial era 4.0 requires companies to radically conduct changes related to technology. This is so that the company can follow the market's ever-changing appetite and is essential to maintaining the company's sustainability. The digital transformation that occurs is fundamental, changing existing procedures and arrangements and creating a new business ecosystem. In carrying out a company transformation, it requires full support and commitment from workers. And the process needs to be conducted by competent leaders, in line with the spirit of change. In this study, the relationship between transformational leadership climate and employee engagement was measured. The research was conducted on banking service companies that have made radical changes related to technology for 2 years. The results showed that the climate created by leaders who adopt transformational leadership styles has a positive and significant effect on employee engagement. This research is a preliminary study, and has limitations, including the number of samples and types of companies studied.

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1. Introduction

The Industrial Age 4.0 has required companies to adopt the latest technology to maintain their existence and sustainability in the business world. The process of change that followed was a radical change that had to run and change quickly to be relevant to the market appetite. In the banking world, especially in Indonesia, the changes that have occurred are driven by, among others changes in customer preferences in making transactions. Customers are increasingly conducting online banking transactions and reducing manual transactions at conventional branches. This change in preferences is accelerating as the world enters the era of the Covid 19 pandemic. Banking business leaders make adjustments by encouraging the acceleration of the digital transformation process in the form of radical changes, changing the entire operational process, implementing new machines and applications and improving the quality of human resources. Changes and new job demand will affect employees, emotionally (Leyer et al., 2020). Furthermore, it is the responsibility of the company to manage the emotions that arise during change into positive energy, so that it can provide a good impetus in the change process (Winasis et al., 2020).

Companies that are undergoing changes must ensure that the employee engagement level is well maintained, because the level of engagement determines the level of service provided (Anand, 2017; Batra 2017). Employee engagement will also direct the company to a higher level of productivity and profitability, ensuring that the changes that occur give the best results for the company (Sim & Plewa, 2017). Technological developments, especially in the sphere of social media, encourage changes

* Corresponding author.

E-mail address: swinasissocjoso@gmail.com (S. Winasis)

in employee behavior. Nowadays, an employee can easily access information about job vacancies, and can compare employee facilities between companies, which has resulted in a decrease in engagement levels. Among all the indicators are : an increase in employee turnover, absenteeism and productivity levels. The company must maintain this level of engagement by maintaining various variables that may affect the level of engagement to ensure the success of the digital transformation process

In a critical condition due to radical change, companies need leaders who are oriented towards change, even a fundamental factor determining the success of change (Mikkelsen & Olsen 2019; Meiyani & Putra, 2019). The leader has a dual role, namely as a leader and a pioneer / agent of change, and the success of the change process depends on the role, attitude and behavior of the leader (Maryam and Fermin 2018). This paper will discuss the impact of rapid changes due to the company's digital transformation on two aspects of human resources transformational leadership climate and employee engagement. The survey was conducted among staff of a private bank in Jakarta who have undergone a digital transformation process for 2 years, and experienced an accelerated transformation due to the Covid 19 Pandemic. The survey results stated in this paper can be expanded for further research.

2. Literature Review

2.1 Transformational Leadership Climate

The transformational leadership climate was earlier studied by Menges et al. (2011). To support organizational change, a climate that is formed with a transformational spirit is needed, which is shown by the behavior of all leaders in the organization. Furthermore, Menges et al. (2011) explain that more leaders show transformational leadership behavior, i.e., leaders pay attention to their followers individually, provide support and respect and will provide emotional attachment, which results in a positive climate and further support the change process. Transformational leadership behavior has a positive relationship with affective behavior at the individual and team level so that it supports harmonious cooperation in organizations (Manas-Rodriguez, 2020). Other research showed that the more leaders who adopt transformational leadership style, the stronger positive affective climate will be created in the organizational environment (Guerrero et al., 2017). According to Turel and Gaudioso (2018) technology-related changes in the industrial era 4.0 have a controlled effect on stress levels if a worker has a good relationship with his supervisor and gets assurance about training and learning of the system application. In a positive leadership climate, workers feel they have psychological safety and encourage more accurate employee expectations, have stronger confidence in overcoming their problems and reduce ambiguity in their work environment (Bala & Venkatesh, 2016).

2.2 Employee Engagement

Employee Engagement strategy can help organizations gain a competitive advantage. Engaged workers will be happier in work and personal life, thereby encouraging motivation at work. In the service sector, when technology and processes can be duplicated, people are one of the unique factors that are difficult for competitors to imitate and are considered the most valuable asset if managed properly (Anitha, 2014). Employee engagement is proved to be an antecedent of organizational commitment (Men et al., 2020). There are several factors that determine the level of employee engagement, among others, feelings of being valued and involved in the decision-making process, opportunities to express ideas, career path initiative, company attention to employee health and well-being (Bhuvanaiah, 2014), personal relationships and cooperation between employees, clear and measurable company vision & mission, also appropriate and supportive managerial behavior (Nink & Robison, 2016). Managerial behavior is also the key to achieving a high level of engagement. Managers on the one hand, must focus on individuals to gain trust and commitment, but on the other hand, they must also focus on the team as a management unit and pour policies into concrete steps and practices so as to generate the highest performance both in productivity and in the level of customer satisfaction. Managers need to show a positive attitude in a work environment, inspiring and supportive (Popli, 2016). In an organization that is undergoing change, employee engagement is needed, because it determines the level of employee support for company policies. Engaged employees show attention to their work and are sometimes absorbed in their work environment. In the context of a change initiative, they will devote the time and tremendous energy in performing the change-related tasks, resulting in increasing organizational performance (Al-Dalahmeh et al., 2018). Employee engagement 3 indicators: vigor, absorption, and dedication (Nikolova et al., 2019) will indicate the level of readiness of employees in implementing change policies (Matthysen & Harris, 2018). It is important for companies to maintain the level of employee engagement while conducting changes in organization.

2.3 Relation between transformational leadership climate with employee engagement

The relationship between transformational leadership climate and employee engagement has not been widely studied and tested empirically. Research focuses more on the effect of transformational leadership on employee engagement. In various studies, transformational leadership has been shown to have a partial and significant positive effect on employee engagement (Bui et al., 2017). In an organization that is undergoing change, leadership style and climate determine the results of change directly, through the formation of workers' attitudes during the change process, and determine the perceptions, commitment, involvement, and engagement of these workers which will greatly determine the success of the overall process (Appelbaum

et al., 2015). A transformational leadership style is proven to have a positive relationship with work engagement and encourages proactive employee behavior that supports positive communication and innovation initiatives (Schmitt, 2016). Transformational leadership has been shown to positively moderate the relationship between work engagement and openness to change (Jeong et al., 2016). Based on the explanation from various international studies above, the hypothesis in this study is that the Transformational Leadership Climate in the process of Digital Transformation has a significant effect on Employee Engagement.



Fig.1. Research Framework

3. Research Method

This study uses a quantitative approach and SEM PLS analysis methods with Smart PLS 3 analysis tools.

3.1. Population dan Sample

The study was conducted on a population of 6,874 employees of one private banks in Jakarta. The number of samples collected was 448 samples in May 2020, 3 months after Covid-19 was declared officially entering Indonesia and Jakarta was undergoing a lockdown. In this study, the unit of analysis used was employee respondents with a minimum work experience of 2 years

Table 1

Respondent Data

No.	Characteristics	Category	Percentage	No.	Characteristics	Category	Percentage
1	Respondent Area	South Jakarta	9.60%	4	Years in service	< 5	18,30%
		East Jakarta	10.94%			5-10	14.96%
		Central Jakarta	27.46%			10-20	37,72%
		West Jakarta	52.01%			> 20 Year	29,02%
2	Branch Type	Branch	61.83%	5	Gender	Male	31,70%
		Sub Branch	38.17%			Female	68,30%
3	Age	< 20	4.91%			36-40	13.17%
		21-25	10.71%			41-45	28.57%
		26-30	9.60%			46-50	13.17%
		31-35	6.92%			> 50	12.95%

3.2 Outer & Inner Model Analysis

All indicator and dimension for the research are shown below :

Table 2

Indicators & Dimensions for Transformational Leadership Style

Dimension	Indicators	Code
Idealized Influence	Leaders set good example for their followers	LC1
	Leaders always speaks optimistic about company future	LC2
	Proud to have them as my leaders	LC3
	Leaders always do respectful action	LC4
	Leaders have an aura of strength and confidence	LC5
Inspirational Motivation	Leaders always give enthusiasm to his subordinates	LC6
	Leaders always give motivation to his subordinates	LC7
	Leaders gave me credit and appreciation for my effort	LC8
Intellectual Stimulation	Leaders always encourages his subordinates to provide the latest ideas	LC9
	Leaders always encourage subordinate to innovate	LC10
	Leaders always suggest new ways to get things done	LC11
	Leaders always care of team engagement	LC12
	Leaders always encourage teamwork to find solution	LC13
Individual Consideration	Leaders give personal attention to their subordinates	LC14
	Leaders encourage me to work and try to do better	LC15
	Leaders always took time to listen to my complaints	LC16
Climate	All leaders of work units & other related work units show transformational leadership style	LC17
	All leaders of work units & other related work units are always positive in encouraging the change process	LC18

Table 3
Indicators & Dimensions for Employee Engagement

Dimension	Indicators	Code
<i>Vigor</i>	I always eager to go to work everyday	EE1
	I always feel passionate about completing assignments	EE2
	I feel strong & energized while doing tasks	EE3
	I always follow every company event & activity without being ordered	EE4
	I always actively provide input at every meeting	EE5
<i>Dedication</i>	I always give the best effort when doing my work	EE6
	I always feel inspired by my occupation	EE7
	I feel proud being part of this organization	EE8
	I always deliver good news about this organization	EE9
	I feel my work id meaningful	EE10
<i>Absorption</i>	I always concentrate when doing my job	EE11
	I often forget the time when doing my job	EE12
	I am not easy to give up if encounter difficulties at work	EE13
	I feel hard to get away from my job despite the difficulties	EE14

In the Outer Model Test, all indicators but EE6 passed the discriminant validity, composite reliability, Average Variance Extracted (AVE), and Cronbach Alpha tests. The PLS Algorithm model is presented in the image below.

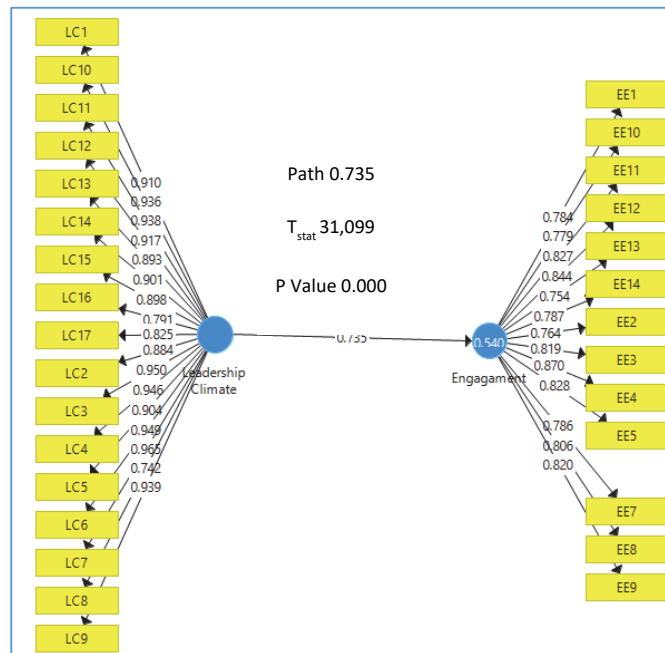


Fig. 2. PLS Algorithm Model

Table 4
Cronbach Alpha, Composite Reliability, AVE

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Engagement	0.955	0.960	0.650
Leadership Climate	0.985	0.987	0.812

Convergent validity for each variable in this study has a value above 0.7 and the results of the discriminant validity analysis, the overall value of the indicator factor loading on the latent variable shows a value greater than the value of the cross loading. From the results of the above analysis, the composite reliability value for the leadership climate variable was 0.987, while for the employee engagement variable 0.960 with Cronbach's Alpha 0.985 for the leadership climate variable and 0.955 for the employee engagement variable. The results show excellent consistency for each indicator in measuring its latent variables.

Table 5
R² Value

	R Square	R Square Adjusted
Engagement	0.540	0.539

The results of the inner analysis of the research model showed that the R-square value of the climate leadership variable on employee engagement was 54.0%.

Table 6
Q² Value

	SSO	SSE	Q ² (=1-SSE/SSO)
Engagement	5824.000	3975.926	0.317

The results of the variable Leadership climate Stone Geiser Value (Q²) on employee engagement are obtained from the results of blindfolding where the value of Q² > 0.0 so that it can be concluded that the leadership climate variable has good relevance in predicting employee engagement variables.

Table 7
Path Coefficient & T_{Statistic}

	Original Sample (O)	Standard Deviation (STDEV)	T _{Statistics}	P Values
Leadership Climate → Engagement	0.735	0.024	31.099	0.000

The result of the path coefficient of the relationship between leadership climate and employee engagement is 0.735 where this value indicates a positive relationship between leadership climate and employee engagement

3.3 Hypothesis Test

The results of the analysis in the research model obtained a statistical T_{value} of 31,099 so that the hypothesis is accepted. This illustrates that there is a significant relationship between the transformational leadership climate and employee engagement. With a path coefficient of 0.735, it means that the influence of the Leadership Climate on employee engagement has a positive value. These results indicate that the positive climate created by the behavior of leaders in a work unit or banking branch determines the level of employee engagement. In organizations, the climate created by leaders that adopt transformational leadership style increases the creativity and analytical skills of employees, especially in conditions of organizational change due to the rapid development of technology (Bushra 2011).

4. Result and Discussion

The purpose of this study was to increase awareness and understanding of banking companies regarding the human resources related consequences during radical changes in Industrial 4.0 era. The results of the hypothesis test found that there was a positive and significant relationship between transformational leadership climate and employee engagement, this result is in line with previous research where the climate built with a transformational leadership style has a positive influence on the level of engagement of companies engaged in services (Buil, 2019; Jeong, 2016; Schmitt, 2016). In a company that is undergoing radical change, management must ensure that work unit leaders maintain a positive climate that encourages employee attachment to the company. During the process of change and daily operations, leaders are obliged to maintain a climate of transformational leadership, which is to demonstrate behavior that causes their followers to believe and be amazed, consistently becomes a source of inspiration and motivation, performs intellectual stimulation, gives individual attention, or pays attention to each follower individually and treat them on a personal basis. For further research, it is necessary to consider the influence of other variables that might affect employee engagement during radical changes such as self-efficacy, work stress, organizational culture, and job satisfaction. It is suggested to be discussed further. In addition, it is recommended that surveys be carried out from several types of banks operating in Indonesia, namely government, sharia, regional and private banks, or to be carried out across industries with a larger sample population. The results of this follow-up study are expected to be able to provide meaningful input to the digital transformation process in the Indonesian banking industry and contribute to the success of the industrial transformation process more broadly.

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