



The change has come: How transformational leadership makes change transition successful in Islamic Banks?

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ARTICLE INFO

ABSTRACT

Keywords:

Transformational Leadership,
Job Performance, Self-Efficacy,
Islamic Banks.

Article History:

Received
2022-02-28
Received in revised form
2022-04-21
Received in revised form
2022-06-07
Received in revised form
2022-06-10
Received in revised form
2022-08-13
Accepted
2022-08-16

DOI: 10.22146/jlo.73318

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Introduction/Main Objectives: A major syariah regulation in Aceh province, Indonesia, has forced conventional banks to terminate their operation in the region, and following that Islamic Banks particularly in Aceh become popular and grow significantly. As a result Bank's operational management has changed in Aceh province. **Background Problems:** As anticipated, uncertainty, confusion and insecurity impacted employee performance **Novelty:** Transformational leadership has long been associated with change process, therefore this research tried to validate the notion with the case of Islamic Banks in Indonesia particularly in Aceh Province which has never been studied before **Research Methods:** This research was conducted using quantitative approach, data were collected using online questionnaires from 135 active employees in Islamic Syariah Banks and hypothesis were then tested using SEM. **Finding/Results:** The results show that transformational leadership significantly affects job performance during the change process at Islamic Banks in Aceh Province and self-efficacy mediates the relationship **Conclusion:** The study confirms that transformational leadership does affect job performance during the change process.

1. Introduction

In Indonesia, the demand for Islamic banking institutions has increased. It has led some major Islamic banks in Indonesia to merger at the beginning of 2021. This transformation is critical to expand their business scale to become the largest Islamic bank in the world.

The biggest customer pool for Islamic banking industry in Indonesia is centered in Aceh Province, which is dominated by Muslim population. Since 2020, every conventional bank in Aceh province has shifted and adopted Islamic banking system to oblige the government's regulation regarding Islamic Banking territory in Aceh. If not so, all conventional banks had to terminate their bank operation in the province. The change has impacted the conventional bank's general activities in this province which now must adopt Islamic Syariah values. As a result, bank employees in this province experienced two significant changes in two consecutive years. First, a state government order to change from conventional to Islamic banking system, second the merger process of some major Islamic banks in the early 2021 which affects their office branches in the province.

Those changes could potentially impact employees' work behaviors. Some employees have decided to leave or move to the conventional bank branches in different province while others chose to stay, follow, and adopt the new system.

Change-related uncertainty can have a negative impact on employees' work experiences, including their attitudes and performance (Cullen-Lester et al, 2014). Both employee and leader supports are essential for the implementation of organizational change to be successful (Herold et al, 2007;

Liu et al, 2010). The most significant leadership type in the organizational change process has been transformational leadership (Bass, 1999).

The impact of transformative leadership on employees' job performance during the change management process is gaining popularity (Faupeil & Sub, 2019). This leadership style has been linked to influencing both followers, and the organization's performance (Lai et al, 2018; Dvir et al., 2002). And previous studies also look at how transformational leadership play a significant role when change arrives (Van der Voet, 2014). Despite its effectiveness during the change process, there is surprisingly little research examining the influence of this leadership style on employee support for change implementation (Burke, 2010). Noticeably missing from research attention is the impact of transformational leaders during change process in Islamic Banking context.

More research is needed to see how intervening variables could affect the employees performance during change management. Few research have seen self-efficacy as potential intervening variable for transformational leadership effect on subordinate's performance. Self-efficacy is a vital capital for employee to believe that they have capability to perform intended tasks during change process, in this case to work under syariah system and adopt the system in relatively short period of time. Transformational leadership may help employees possess higher self-efficacy to work during change situation.

The main purpose of this study is to see to what extent transformational leadership affects employees' job performance mediated by self-efficacy

during the change management process at Islamic Banks. We argue that transformational leadership and self-efficacy are critical to stabilize or maximize members' job performance during a change situation. This research proposed a model that suggests transformational leadership influences employees' job performance mediated by self-efficacy during the change implementation process at Islamic Banks in Aceh Province. Understanding the link between these constructs increases our understanding on how transformational leader significantly affects job performance when changes occur. This study is important because we want to validate the impact of transformational leaders on employees' performance.

This research intends to contribute in several ways. First, it re-confirms the notion that transformational leaders have significant impact toward employee's performance during change management. Second, this study reveals to what extent transformational leaders play critical role in the process of change management from conventional to Islamic Syariah model in Indonesia bank industry.

2. Literature Review

Transformational leadership was first introduced by Burns (1978). During the implementation of change, this leadership style is believed to be the most effective (Liu, 2010). According to Avolio and Bass (1995), there are four main components found in transformational leaders, namely: charismatic role modelling, individualized consideration, inspirational motivation, and intellectual stimulation. These components are needed in the process of change because according to Busari et al (2019),

transformational leaders play major roles in change situation. This leader acts as a change agent that takes part in the process of change plans, change's execution, and member's involvement and participation in change. During change process from conventional to Islamic Banking method in Islamic Banks, leaders play vital role in facilitating the operational system change from conventional to Syariah based operation. Leaders have involved in the process of planning and in the execution. Leaders provide clear vision and blueprint on how the Islamic Banking concept should be implemented in the daily operation activities.

Transformative Leadership and Job Performance

Being a transformational leader means that the leader becomes an idealized influencer, inspiring, motivating, intellectual, and empathetic leader. The leader believes in achieving higher collective goals with his values, efficacy, and benevolence orientation (Antonakis & House, 2002). To reach the goals, transformational leaders become an ideal example for members in executing assigned work in change situations. The leader strongly motivates employees' performance by challenging the status quo with an intellectual solution to reach intended goals. Transforming to the Islamic Banking system is quite a challenge after years of having a conventional system, therefore intellectual and motivating leaders help the process of change go smoothly with innovative and knowledgeable approach.

Transformational leaders increase employees' job performance during the change process by helping them achieve substantial work outputs. Lai et al (2018)

found that when transformational leader inspires the members, better task performance among employees is achieved because they become more engaged in work. Transformational leaders show empathy (Keevy and Perumahl's, 2014) to subordinates. This character is important during the change process because with uncertainty and new situations, emotional supports are highly needed. Embracing Islamic Syariah bank system in a relatively short period of time triggers pressures in complicated situations. This type of leadership could ease the burdens with more personal approach. Also, new management style brings different cultures and climates which make discomfort and confusion among employees. Transformational leaders are present with personal considerations.

Based on the above explanation, we hypothesize the following:

H1: Transformational Leadership significantly improve job performance during the change management process

Transformational Leadership and Self-Efficacy

When organizations go through the change process, self-efficacy becomes one personal resource (Bayraktar & Jimenez, 2020) that employees need to face stress work demand (Herscovitch and Meyer, 2002) and uncertainty (Herold et al, 2007). Self Efficacy according to Bandura (1995) is a person's positive view that has the ability to execute any assigned activities. Past research found in the process of change, transformational leaders may elevate employees' self-efficacy (Shamir et al, 1993) by convincing their subordinates that they are able to perform intended work. Based on the above explanation, we hypothesize the following:

H2: Transformative Leadership significantly improve subordinate's Self-Efficacy during the change management process

Self-Efficacy and Job Performance

A strong relation between Self-efficacy and job performance has been widely researched (Parker et al, 2006; Peterson & Byron, 2008; Stajkovic & Luthans, 1998). It is argued that self-efficacy motivates improved work performance (Locke & Latham, 2004) by increasing someone's belief and confidence to perform task and reach intended goals with sustain effort (Bandura, 1997). In other occasion, self-efficacy helps employees exercise sense of control towards their work and life situation (Bandura, 1986). They try to find the best solution in order to adapt and survive in different work situation or pressure. In the case of changing in management process at Islamic Banks in Aceh Province, self-efficacy is highly required in order to maintain employees' confidence and effort to perform work during unpredictable change situation.

Based on the above explanation, we hypothesize the following:

H3: Subordinate's Self-Efficacy significantly affects job performance during the change management process

Transformational Leadership, Self-Efficacy, Job Performance

With significant support from the leaders, employees enhance their self-efficacy and so believe that they have the ability to execute challenges (Harland et al., 2005) and demanding tasks. Having solid confidence toward work during the change process, employees will significantly increase their work performance. According to previous research, transformational leaders foster change-supportive attitudes by

increasing followers' self-efficacy and giving them confidence that change will produce the desired results (Shamir et al, 1993). Based on the above explanation, we hypothesize the following:

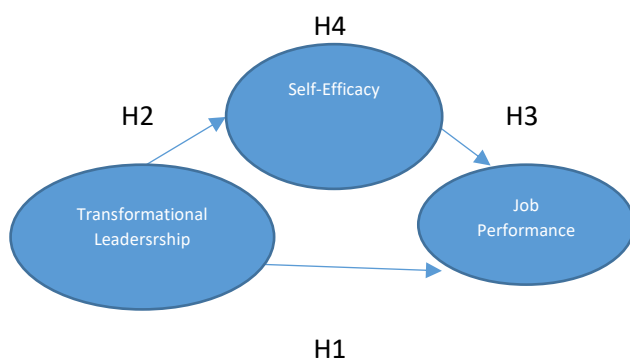
H4: Transformative Leadership significantly improve job performance during the change management process mediated by Self-Efficacy.

3. Method, Data, and Analysis

In this study, the respondents were 135 professional employees at Islamic Banks located Aceh province, Indonesia.

Participants were asked to complete a survey consisting of questionnaires using Google Forms. The measurements for transformational leadership were the 21 items instruments adopted from Podsakoff, MacKenzie, Moorman, and Fetter (1990). For self-efficacy, the measurement was taken using Chen et al. (2001). And to measure performance, we used Tsui et al (1997). A five-point Likert Scale was used to measure all items (1= strongly disagree to 5 = strongly agree). Finally, the data were calculated using SEM Amos. Figure 1 shows the research model.

Figure 1. Research model



4. Result and Discussion

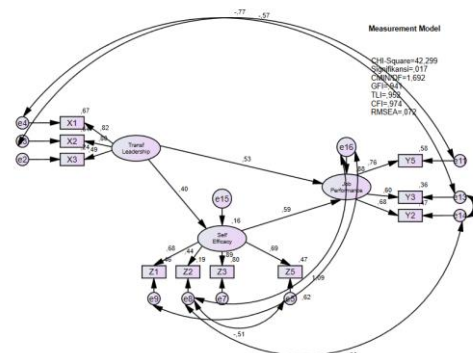
The controlled variables used in this study include gender, age, and working hours. Some assumption tests were done such as normality, outliers, multicollinearity. The normality test was done by looking at the skewness and value of kurtosis. Mahalanobis was used to see outlier assumption and meanwhile, covariance matrix determinant was used to see the multicollinearity. Data was found normal, outliers were reduced.

Table 1. Respondent Characteristics

Baseline Characteristic	Full Sample	
	n	%
Gender:		
Male	62	41
Female	73	49
Age:		
18-25	32	21
26-33	76	51
34-41	16	11
>42	11	7
Working hour:		
9 hours	69	46
> 9 hours	66	44

Note. n =135

Figure 2. Measurement Model



Source: Data, 2022

This study used structural equation model (SEM). Based on CFA test, all factor loading

values are above 0.6 with DF = 25 ; CMIN/DF = 1.692; GFI = .941 ; RMSEA= .072 ; AGFI = .870; TLI = .952, CFI = ,974 ; NFI = .939; PNFI = .522; PGFI = .428.

In figure 2, the effects of transformational leadership on employee job performance mediated by self-efficacy are presented.

Table 2. Regression Weight

		Estimate	S.E.	C.R	P	Label
Self_Efficacy	<- Transformational Leadership	,348	,091	3,810	**	par_11
Job_Performance	<- Transformational Leadership	,398	,079	5,030	**	par_10
Job_Performance	<- Self_Efficacy	,506	,098	5,143	**	par_12
X3	<- Transformational Leadership	,600	,101	5,931	**	par_1
X2	<- Transformational Leadership	,849	,098	8,667	**	par_2
X1	<- Transformational Leadership	1,000				
Z5	<- Self_Efficacy	1,000				
Z3	<- Self_Efficacy	1,086	,134	8,084	**	par_3
Z2	<- Self_Efficacy	,446	,115	3,866	**	par_4
Z1	<- Self_Efficacy	,915	,132	6,948	**	par_5
Y5	<- Job_Performance	1,055	,122	8,659	**	par_6
Y3	<- Job_Performance	,820	,099	8,292	**	par_7
Y2	<- Job_Performance	1,000				

Notes: Regression Weight

Sources: Data, 2022

From hypothesis testing results, they indicated positive and significant direct and indirect relationship between transformational leadership and job performance. This result is relevant to a previous study by Jyoti and Bhau (2015) and Faupel and Sub (2018). During the change process, transformational leadership help to ease challenges by being a transform model, inspiring motivator, intellectual director, and empathetic leader. Employees perceive these characteristics as supportive and motivating leaders that increase their confidence and performance during difficult times (Bass and Riggio, 2006). And self-efficacy was found partially mediates the relationship. This indirect relationship result was also aligned with the previous studies that found self-efficacy acts as a mediating variable between transformational leadership and follower performance (Hannah et al., 2016). By improving and motivating employees' confidence, their self-efficacy is enhanced and they believe that they have the personal capacity to perform the task during the change transition process.

Table 4. Standardized Regression Weights

		Estimate
Self_Efficacy	<--- Transformational Leadership	,399
Job_Performance	<--- Transformational Leadership	,532
Job_Performance	<--- Self_Efficacy	,591
X3	<--- Transformational Leadership	,491
X2	<--- Transformational Leadership	,802
X1	<--- Transformational Leadership	,818
Z5	<--- Self_Efficacy	,686
Z3	<--- Self_Efficacy	,893
Z2	<--- Self_Efficacy	,436
Z1	<--- Self_Efficacy	,679
Y5	<--- Job_Performance	,759
Y3	<--- Job_Performance	,603
Y2	<--- Job_Performance	,685

Notes: Standardized Regression Weights

Source: Data, 2022

Table 5. Standardized Direct Effects (Group number 1 - Default model)

	Transf_Leadership	Self_Efficacy	Job_Performance
Self_Efficacy	,399	,000	,000
Job_Performance	,532	,591	,000

Notes: Standardized Direct Effects (Group number 1 - Default model)

Source: Data, 2022

Table 6. Standardized Indirect Effects (Group number 1 - Default model)

	Transf_Leadership	Self_Efficacy	Job_Performance
Self_Efficacy	,000	,000	,000
Job_Performance	,236	,000	,000

Notes: Standardized Indirect Effects (Group number 1 - Default model)

Source: Data, 2022

5. Conclusion and Suggestion

The current study was intended to see the direct and indirect relationship among three variables namely transformational leadership, job performance, and the mediation variable of self-efficacy. The result indicated significant direct and indirect relationships. During the change management process in Islamic Banks in Aceh Province, transformational leadership significantly affects employees' job performance with the indirect effect of self-efficacy.

This study offers a contribution to leadership literature and validation toward previous studies that have proven the relationship among those variables. In terms

of an economics perspective, the study brings some insights in regard to the importance of transformational leadership style for companies in change process experiences, especially in Islamic Banking context. In the unpredictable economic situation to the current date, change is inevitable and may occur at any time.

There are some limitations present in this study such as the relatively small sample and the sample being only in Aceh province. Also, the combination of deep interview techniques using the dyad approach would give a better outlook on how job performance is affected by transformational leadership. Future research should see more contextual and other personal factors that potentially be the mediating or moderating factors in the relationship. Looking at more variables help our better understanding on how other personal factors such as employees characteristics or situational factors could potentially strengthen the relationship.

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