

# The Impact of Transformational Leadership on Employee Satisfaction, Employee Performance, and Employee Engagement: The Insurance and Pension Fund Service

Mala Alfiyah Ningsih<sup>a</sup>, Yoka Krisma Wijaya<sup>b</sup>, Sidra Muntahari<sup>c</sup>, Nur Damayanti<sup>d\*</sup>

<sup>a,b,c</sup>Postgraduate Student, Business School Master Program, Bina Nusantara University, Indonesia

<sup>d</sup>Lecturer, Business School Master Program, Bina Nusantara University, Indonesia

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## ABSTRACT

Leadership style is a complex phenomenon involving the leader, followers, and circumstances. The leadership style in an organization is also related to the overall success of the team. This study intends to determine whether transformational leadership carried out by a company has a significant positive impact on the outcomes felt by employees in the insurance and pension fund service cluster of State Owned Enterprises (SOEs). This study utilized Partial Least Square (PLS) in SmartPLS 3.0 with a sample of 372 employees from class 3 and class 4 SOEs in the insurance and pension fund service cluster of SOEs. The results reveal that transformational leadership significantly impacts the outcomes felt by employees (in terms of employee satisfaction, employee performance, and employee engagement). This study confirms the positive relationship between one type of leadership and employee satisfaction, employee performance, and employee engagement in the insurance and pension fund service cluster of SOEs. This study proposes new insights and theoretical as well as managerial implications. Future research can consider other variables that can give a significant positive influence on the outcomes felt by employees, for instance working environment.

## KEYWORDS

Employee engagement  
Employee performance  
Employee satisfaction  
Insurance and pension fund service  
Transformational leadership

## INTRODUCTION

Leadership is a complex phenomenon involving leaders, followers, and certain circumstances. Several leadership studies put their focus on leaders' personalities, physical characteristics, or behaviors while others investigate the relationship between leaders and their followers (Hughes et al., 1999). Mahdikhani and Yazdani (2020) shared a new theory about contemporary leadership styles which suggests leadership behaviors, namely transformational, transactional, and non-transactional leadership. Leadership style in an organization is believed to connect to the success of the team (Antonopoulou et al., 2021). One leadership style that is adaptive to organizational performance is transformational leadership. This is in line with findings by Layaman et al. (2021),

\*Corresponding Author: [nur.damayanti@binus.ac.id](mailto:nur.damayanti@binus.ac.id); doi: 10.35313/ijabr.v5i01.289

Yucel (2021), Tambakan et al. (2020), and Aboramadan and Dahlesz (2020) who affirmed that companies that implement transformational leadership give a positive impact on organizational performance. The organizational performance itself includes the aspects of outcomes perceived by employees, such as satisfaction, performance, and engagement from employees' point of view.

Some studies have been carried out to show that transformational leadership as a leadership style significantly improves how employees perceive the results, either one or several outcomes such as satisfaction, performance, and engagement. According to Chen et al. (2021), Tuzzakiyah et al. (2021), Hassi (2018), and Andreani et al. (2016), transformational leadership is positively connected to employee satisfaction via the mediating role of the experienced relationship climate perceived by employees. Further, Yucel (2021), Magasi (2021), Kimani (2021), Riyanto et al. (2021), Farisi et al. (2020), and Andreani et al. (2016) all found significant results and a positive relationship between transformational leadership and employee satisfaction.

The Ministry of State-Owned Enterprises has established a description of the strategy and standardization of SOEs to improve performance and add value, including streamlining and increasing the portfolio of the number of SOEs, dividing twelve SOE clusters, and explicitly disclosing strategic information to all companies that can be accessed easily and openly (<https://bumn.go.id/>). One of the clusters is the insurance and pension fund service cluster which consists of some SOEs with a focus on profitable companies and services. Additionally, there is some research addressing how transformational leadership affects employee outcomes like satisfaction, performance, and engagement from the perspective of employees at insurance companies. However, there are still research gaps that need further study.

Based on the studies discussed above, there are several impacts of transformational leadership on the outcomes perceived by employees. The research regarding the three outcomes – employee engagement, employee performance, and employee satisfaction – was reviewed at the outset of this study along with the literature on transformational leadership as the independent variable in the studies on the insurance and pension fund service cluster of SOEs.

## LITERATURE REVIEW

### Transformational Leadership

According to Northouse (2016), Yucel (2021), and Donkor (2021), leadership and leadership style are key factors in organizational growth and success. Two styles of leadership were described in some writings: namely transformational leadership and transactional leadership (Yucel, 2021; Layaman et al., 2021; Tambakan et al., 2020; Aboramadan & Dahlesz, 2020; and Donkor, 2021). Burns (1978), a pioneer in the study of transformational leadership, said that transformational leadership can optimally transform the human resources of the organization to achieve a predetermined goal and target. In addition, this style of leadership encourages the creativity of followers as an intellectual stimulation form and also determines the degree to which the leader is able to take risks, challenge assumptions, and solicit followers' ideas. Finally, 'individualized consideration' requires leaders to mentor, support, encourage, and coach followers with their competencies while also paying concern to each follower's needs and wants (Bass, 1985). Tambakan et al. (2020) cited an explanation by Bass and Riggio regarding four main pillars of transformational leadership: 1) idealized influence, 2) inspirational motivation, 3) intellectual stimulation, and 4) individuals. Additionally, Winasis et al. (2021) concurred with this, by measuring transformational leadership using these dimensions and found its positive and significant impacts on employee engagement. While this present study focuses on the insurance and pension fund service cluster of SOEs, Jaroliya and Gyanchandani (2021)

discovered that transformational leadership has a direct and significant impact on team performance in the information technology field.

Regarding the above explanation, this study also used transformational leadership measurements that were more in line with organizational growth by considering goals and targets, employee performance, and employee engagement, as well as variable dimensions.

### **Employee Satisfaction**

Hassi (2018) defined employee satisfaction as how individuals build work attitudes based on instincts, beliefs, and behaviors. Employee satisfaction or satisfaction on the job is reflected in the sense of fulfillment felt when performing work-related duties and refers to several things that trigger individuals to express satisfaction with their work. Chen et al. (2021) researched mental, physiological, and environmental situations from 211 frontline employees using a twenty-one-measurement scale and verified their hypothesis, that the perceived employee relations atmosphere serves as a mediating factor in the relationship between transformational leadership and employee happiness. Yachya (2016) determined indicators related to employee satisfaction, including personal satisfaction, loyalty, and employee productivity. It was found that employee satisfaction depends on transformational leadership in order to get positive influence from employee perspectives (Yachya, 2016). Riaz and Haider (2010) conducted a study to determine job success and career satisfaction in Pakistan by evaluating transformational and transactional leadership styles, and the conclusion said that transformational leadership is positively related to job success and career satisfaction. This finding is consistent with the findings of Wiratmadja et al. (2010) and Berson and Linton (2005), who discovered that job and overall satisfaction have a correlation with transformational leadership. Furthermore, with reference to the correlations between transformational leadership dimensions, team performance, and service quality in retail banks, Lee et al. (2011) confirmed that among several transformational leadership dimensions, only intellectual stimulation is significantly related to team leader job satisfaction.

Based on the literature review, this study considered the best practice indicators of perceived impact by employees (personal satisfaction, loyalty, and employee productivity) as the dependent variables that give an impact on employees.

H<sub>1</sub>: Transformational leadership has a significant positive impact on employee satisfaction in the insurance and pension fund service cluster of state-owned enterprises.

### **Employee Performance**

Employee performance is the output of an employee engaging in the jobs assigned to him based on expertise, experience, time, and sincerity. In short, it depicts how employees try to do the work (Andreani & Petrik, 2016; Yucel, 2021). Donkor (2021) examined the relationship between leadership style and employee performance in public organizations based on employee appreciation for organizational commitment; it was discovered that staff commitment and performance are primarily influenced by leadership. It implies that the effectiveness of leadership style to encourage employee performance depends on organizational commitment. This is in line with Yucel (2021) who discovered a significant and positive relationship between transformational leadership and employee performance and concluded that leaders must lead the team by increasing employee involvement to achieve company goals effectively and efficiently, such as by building good image, development, productivity, and profitability. Magasi (2021) affirmed that intellectual leadership becomes the heart

of empowering employee performance and suggested that in the context of the banking industry, quality and dependable products, quality and reliable financial services, quality and reliable markets, quality and reliable technology, many products, portfolios, and effective client feedback are among the most appropriate employee key parameters. Meanwhile, Farisi and Paramita (2020) stated that the performance indicators are 1) quality, 2) quantity, 3) time, 4) emphasis on cost, 5) supervision, and 6) relationship between employees. They also concluded that performance appraisal is often associated with cooperation or harmony between employees and leaders, where this relationship is commonly referred to as the relationship between individuals. Ferozi and Chang (2021) using the 16-question survey by Lynch, Eisenberg, and Armeli (1999) discovered that transformational leadership is statistically significant and has a positive relationship with employee performance.

Based on the literature review above, this research used employee performance as one of the variables that have a perceived impact on employees by considering the best practice indicators using a 16-item questionnaire.

H<sub>2</sub>: Transformational leadership has a significant positive impact on employee performance in the insurance and pension fund service cluster of state-owned enterprises.

### **Employee Engagement**

According to Tambakan et al. (2020), the higher the level of employee engagement in the line of management employees, the stronger the transformational leadership, and the higher the compensation variable. Aboramadan and Dahlesz (2020) confirmed that transformational leadership plays an important role in increasing employee engagement. Meanwhile, Hewitt (2017) employed the 3S concept in measuring employee engagement since the elements are required for employees to be fully engaged. These three elements are 1) say, in which employees consistently say good things about the organization, partners, and customers; 2) stay, in which employees want to stay to work and be a part of the organization; and 3) strive, in which employees go above and beyond to contribute to business success. These elements are correlated with one another to determine employee engagement, for example, it is hard to tell if employees are committed and engaged to the organization when they try to go above and beyond but do not really want to stay with the organization, or when they want to stay with the organization but do not try to go any further. Previous studies showed that the behavior of the employees is a positive driver of the business since it impacts customer satisfaction, operational efficiency, and revenue growth. In addition, there is evidence that employee attitudes and behavior have a strong relationship with customer satisfaction and have an indirect effect on financial performance. In addition, the indicators and dimensions of employee engagement described by Winasis et al (2021), namely vigor, dedication, and absorption, are positively and significantly affected by transformational leadership.

Based on the literature review, the study used employee engagement measurements that cover vigor, dedication, and absorption.

H<sub>3</sub>: Transformational leadership has a significant positive impact on employee engagement in the insurance and pension fund service cluster of state-owned enterprises.

**RESEARCH METHOD**

This study has made use of the Smart PLS version 3 analysis tools with a quantitative methodology. The population in this study consisted of all employees in the insurance and pension fund service cluster, except for Jiwasraya, which was in the process of merging with IFG Life. Thus, the population in this study consisted of four companies. To collect primary data from the employees’ perspective, a survey method using an online questionnaire was used.

Figure 1 depicts the proposed connection between the variables in the hypothesis.

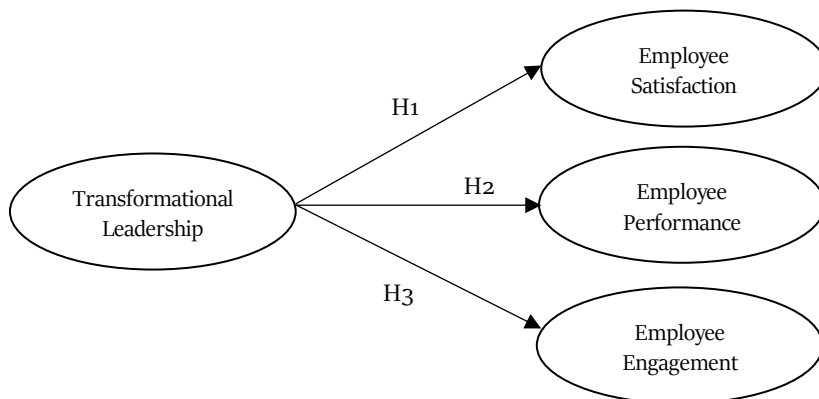


Figure 1. The research model

Each employee had a leader as the superior in his respective work unit. Thus, each employee deserved to be a sample or respondent in his respective work locations (probability sampling). The population was divided based on the class classification of state-owned businesses (BUMN) in the insurance and pension fund service cluster, which consisted of Class 3 and Class 4 BUMN, for the stratified random sample method used in this study.

Table 1. Population and sample (as of February 4, 2022)

No.	Classification	Total Employees	%	Sample
1.	Class 3 SOEs	4.609	86%	321
2.	Class 4 SOEs	733	14%	51
Population		5.342		
Sample Size				372

With reference to the Slovin (2020) population with a margin of error (e) value determined of 5%, the sample size was 372 respondents as shown in Table 1. Mathematically, the Slovin formula is as follows:

$$n = \frac{N}{1 + Ne^2}$$

The elements of the formula include *n*, *N*, and *e*. Element *n* refers to the number of samples to be searched, *N* is the number of the population, and *e* represents the error margin that is tolerated.

The data were collected using an online questionnaire survey in Google Forms with a Likert scale. This technique was used since it allows researchers to obtain a wide range of data effectively and efficiently so that data processing can be carried out more easily and quickly. Respondents answered questions in the survey which included the independent variable 'transformational leadership' and questions related to the dependent variables, namely the outcomes perceived by employees, such as satisfaction, performance, and engagement. This study used a 5-points Likert scale with a response scale of 1 for Strongly Disagree to 5 for Strongly Agree.

## RESULTS

### Description of the Respondents

This study involved 392 respondents but only 372 of them could further proceed. The demographics of the respondents included gender, length of service, and type of work unit (head office or branch office). Table 2 describes the characteristics of the respondents based on the filled surveys.

Table 2. Respondents by demographics

No.	Variable	Description	Frequency	Percentage
1.	Gender	Female	130	35 %
		Male	242	65 %
2.	Work Units	Head Office	163	44 %
		Branch Office	209	56 %
3.	Length of Employment	> 2 years	328	88 %
		1 – 2 years	32	9 %
		< 1 year	12	3 %
Total			372	100 %

The data presented in Table 2 above shows that the percentage of genre between female and male respondents was almost in a ratio of 1:2 (34% for females and 66% for males). 46% of the respondents worked at the head office and 54% in branch offices. For the length of service, the majority of respondents have worked > 2 years (88%) while the rest of them have worked 1 – 2 years (9%) and < 1 year (3%).

### Validity and Reliability Tests

According to Ghazali (2009), a validity test means measuring the validity of the construct or research instrument. In determining the validity using partial least square (PLS) SmartPLS version 3, the researchers used a convergent validity method through outer loading with a loading factor value of 0.7 for each indicator on the variable. According to Ghazali (2009), if the construct's reliability test result shows Cronbach's Alpha score is higher than 0.6, it is then considered reliable. The findings of the validity and reliability test in this study are displayed in Table 3.

Table 3. Loading of the item measurement

Construct/Item	Loading*	$\alpha$	CR	AVE
<i>Transformational Leadership adapted from Winasis et al. (2021)</i>		0.970	0.973	0.693
My leader sets a good example for his subordinates	0.831			
My leader always talks optimistically about the future of the company	0.766			
I am proud to have him as my leader	0.862			
My leader always acts respectfully	0.839			
My leader has an aura of strength and confidence	0.832			
My leader always gives encouragement to his subordinates	0.860			
My leader always motivates his subordinates	0.856			
My leader gives me praise and appreciation for my efforts	0.856			
My leader always encourages his subordinates to come up with the latest ideas	0.802			
My leader always encourages subordinates to innovate	0.816			
My leader always suggests new ways to get things done	0.860			
My leader always pays attention to team involvement	0.853			
My leader always encourages teamwork to find solutions	0.843			
My leader pays personal attention to his subordinates	0.787			
My leader encourages me to work and strive to do better	0.838			
My leader always takes the time to listen to my complaints	0.814			
<i>Employee Satisfaction adapted from Yachya, N. (2016)</i>		0.917	0.932	0.633
I am happy with my job	0.766			
I am glad about how this business is managed	0.844			
I am impressed with my leader	0.824			
My work is quite interesting	0.776			
Company policy already represents my rights as an employee	0.845			
I have future guarantees for my company	0.753			
Company is my priority	0.759			
I have never been absent from work for unreasonable reasons	0.794			
<i>Employee Performance adapted from Ferozi, S., &amp; Chang, Y. (2021)</i>		0.949	0.956	0.623
I carry out the jobs that are assigned to me	0.743			
I show promptitude in arriving at my workplace	0.745			
I always complete the assigned task	0.779			
I carry out the responsibilities described in my job description	0.850			
I always do my jobs collaboratively with my leader	0.809			
I am looking for the official performance standards for my position	0.821			
When I can't go to work, I submit a permission letter	0.742			
I have some ideas to make my teamwork perform better overall	0.806			
I encourage others to approach new, more productive methods to accomplish their work	0.782			
I try telling good things that are useful for the company	0.801			

Table 3. Loading of the item measurement (continued)

Construct/Item	Loading*	$\alpha$	CR	AVE
I am always searching for ways to improve the efficiency of my work	0.822			
I take action to safeguard the company from potential problems	0.806			
I try hard to help new employees	0.734			
<i>Employee Engagement adapted from Winasis et al. (2021)</i>		0.946	0.953	0.649
I am always excited to go to work every day	0.842			
I always have a lot of energy for accomplishing the task	0.818			
When I'm working, I feel energetic and powerful	0.843			
I always participate in all workplace events and activities without being prompted	0.716			
At every meeting, I consistently and actively contribute	0.770			
I always do my best to complete my work	0.834			
My work always inspires me	0.818			
Being a part of this group makes me feel proud	0.811			
I always spread positive news about this company	0.840			
I consider my work to be highly important	0.802			
I always pay attention to my work	0.755			

Note:

$\alpha$ : Cronbach's Alpha, CR: Composite Reliability, and AVE: Average Variance Extracted

\*) All significant at  $p < 0.01$

The results of the calculation using SmartPLS version 3 show that the 52 indicators of each variable, namely transformational leadership (TL), employee engagement (EE), employee performance (EP), and employee satisfaction (ES), have a loading factor value of 0.7. Therefore, the model is declared valid, and the indicators can be used as instruments in this study.

Based on the results of the reliability test in Table 3, the instrument is considered reliable and can be utilized in this investigation because Cronbach's Alpha value is more than 0.6. In addition, convergent validity is also guaranteed in this study because the AVE value for each construct is higher than 0.5.

## Hypothesis Test

By considering the t-statistics and p-values, it is possible to analyze the hypotheses of this study. The hypothesis is declared accepted if the p-values are  $< 0.05$  and, according to Ghazali (2009), the t-table value is 1.96.

Table 4. Hypotheses test results

Hypothesis	Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-statistics ( O/STDEV )	P-values
H1	TL -> ES	0.796	0.798	0.027	29.031	0.000
H2	TL -> EP	0.562	0.568	0.052	10.860	0.000
H3	TL -> EE	0.647	0.653	0.047	13.851	0.000

Looking at the output of Path Coefficients SmartPLS 3 in Table 4 regarding the significant positive relationships between variables by analyzing t-statistics and p-values, the results state that:



1. T-statistics has a value of 29.031 > t table and a p-value of 0.000 for the effect of transformational leadership on employee satisfaction. According to statistics, H1 is approved, indicating that the transformational leadership variable significantly improves employee satisfaction for those working in the insurance and pension fund service cluster of the state-owned enterprises.
2. T-statistics has a value of 10.860 > t table and p-values of 0.000 for the effect of transformational leadership on employee performance. According to statistics, H2 is accepted, showing that the transformational leadership variable significantly improves employee performance for those working in the insurance and pension fund service cluster of the state-owned enterprises.
3. T-statistics has a value of 13.851 > t table and p-values of 0.000 for the effect of transformational leadership on employee engagement. H3 is accepted statistically, indicating that the transformational leadership variable has a strong positive impact on employee engagement in the insurance and pension fund service cluster of the state-owned enterprises.

Based on the description above, the independent variables meet the significant positive impact of all dependent variables.

## DISCUSSION

The results of this research imply that transformational leadership has an impact on the employees' outcomes, including satisfaction, performance, and engagement. Although transformational leadership, employee satisfaction, employee performance, and employee engagement have all been extensively discussed in the literature, the relationship between all the important constructs has not been thoroughly explored.

This study generates a number of significant findings. Empirically, the findings of the hypotheses demonstrate that transformational leadership significantly improves employee satisfaction, performance, and engagement in the context of the insurance and pension fund service cluster of state-owned enterprises.

This study discovers that transformational leadership increases employee satisfaction. The findings of this study are aligned with those of Yachya (2016), who discovered that, compared to employee performance and employee engagement, employee happiness has the highest significant positive influence. The results of this study are also in line with the research of Chen et al. (2021), Tuzzakiyah et al. (2021), Hassi (2018) Andreani & Petrik (2016), Yachya (2016), and Berson & Linton (2005) which stated that organizations led by transformational-style leaders are effective in increasing employee satisfaction. This study also determines the employee satisfaction construct (loading factor: 0.824) and employee performance construct (loading factor: 0.809) as direct opinions about leaders.

Next, this study finds that employee performance is significantly improved by transformational leadership. This finding is in line with the previous study by Magasi (2021) who conducted research in the banking sector. He concluded that intellectual leadership is the heart of empowering employee performance and suggested that the most appropriate employee performance indicators are quality and reliable products, quality and reliable financial services, quality and reliable markets, quality and reliable technology, multiple products, portfolio, and effective feedback from customers.

Finally, this study explains that transformational leadership has a significant impact on employee engagement. It demonstrates how crucial transformational leadership is in enhancing employee engagement (Aboramadan & Dahlez, 2020). Another important factor in achieving a high level of

involvement was leadership style. Leaders must be committed and focused in order to win the trust and commitment of others, and at the same time, they must also concentrate on the team.

## MANAGERIAL IMPLICATIONS

This study presents important findings that show the significant impact of transformational leadership on employee engagement, performance, and satisfaction in the context of the insurance and pension fund service cluster of state-owned enterprises. These important findings can be used by the organization's leaders and for managerial practice, also for the human resource department to develop the soft skills of leaders in their organization.

First, leaders should acknowledge that transformational leadership is the ideal type of leadership for enhancing employee performance, engagement, and satisfaction. Leaders must design and develop strategies to increase employee satisfaction, employee engagement, and employee performance in order to create a better and more sustainable relationship with their subordinates.

Second, leaders should collaborate with the human resource department to identify human resource management practices and give attention or focus to improving the existing practices. The findings of this study can also be utilized by the human resources department to increase employee satisfaction, employee engagement, and employee performance. For the leaders and employees of the insurance and pension fund service cluster of state-owned enterprises, innovative corporate culture internalization, creation, training programs, or outdoor programs should be designed to boost employee engagement. The use of outdoor activities programs could enhance employee engagement among organizations.

Third, management should be supportive to create training programs for leaders. Outdoor programs can be used to develop team building and leadership skills for corporate employees. Management can also make rules or regulations as a form of commitment and to gain the trust of their employees.

Lastly, synergies between management, leaders, and employees can be created so the organization will achieve targets and be ready to answer the agility business challenge. The main responsibility of a leader is to plan, motivate, and observe every work activity in the organization in order to achieve the organization's goal.

## LIMITATIONS AND FUTURE RESEARCH

The limitations and suggestions for further research are given as follows:

1. This study only covered the employees in the insurance and pension fund service cluster of state-owned enterprises. Although it gives significant findings, this research cannot be generalized to other state-owned enterprise clusters because companies in eleven other clusters of state-owned enterprises (Energy Cluster, Financial Services Cluster, Food Industry Cluster, Health Industry Cluster, Infrastructure Services Cluster, Logistics Industry Cluster, Manufacturing and Survey Industry Cluster, Mineral and Coal Industry Cluster, Mining Cluster, Plantation and Forestry Industry Cluster, Tourism and Support Services Cluster) may generate different responses from respondents.
2. For further research, the researchers suggest adding mediation/moderation variables that impact the relationship between transformational leadership and the employee's perceived outcomes, such as discipline factors, knowledge management, subordinate, and gender.

Mediation/moderation variables also will improve the understanding of the phenomenon of employee work outcomes. In addition, this study used quantitative data. Further research can use a qualitative approach to disclose certain values that are not covered in the quantitative approach.

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