

## Transformational Leadership, Change Self- Efficacy on Affective Commitment to Change, in Banking Vs Insurance Industries

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The pace of globalization and technological development creates changes inevitable to organizations. Financial firms are one of the fast-changing and vulnerable sectors of organizational change. Previous studies showed that both leader and people are important to the success of organizational change. The objective of this study is to identify and compare the effect of transformational leadership and employees' change self-efficacy on affective commitment to change both in banking and insurance industries, as well as comparing the results from two different types of organizations. Respondents consisted of 207 employees from banking and insurance industries. Data were analysed using multiple hierarchical regressions. The result showed that change self-efficacy have a positive and significant impact on affective commitment to change in both industries, However, the positive and significant impact of transformational leadership was only found in the insurance industry but not in the banking industry. The implication of the study can be used for practitioners to enhance the success of organizational change through developing change self-efficacy on the employees as well as transformational leadership on the leaders in order to create a high affective commitment to change.

**Keywords:** Affective Commitment to Change, Change Self-Efficacy, Organizational Change, Transformational Leadership

### 1. INTRODUCTION

The rapid development of technology and globalization requires organizations in the 21st century to continue to evolve and change. Banking insurance industries can be categorized as the most heavily transformed companies.<sup>1</sup> Unlike the banking industries that focus on their internal regulation, changes in the insurance industries also affect the experience of clients or customers. These changes have impacts on administrative regulations, insurance claims, bills, etc. Given the vulnerability of the banking and insurance industry to the changes in the modern era and the importance of the sector's role in the country's economy, banking and insurance sectors need to always be ready to face possible organizational changes. One of the reasons for the failure is due to lack of commitment to change from the employees.<sup>2-4</sup> Commitment to change is the essence of organizational change; as without it, change cannot be internalized by the organization.<sup>3</sup> Herscovitch and Meyer<sup>4</sup> define commitment to change as a drive or mindset that makes individuals carry out the actions that are necessary for the successful implementation of organizational change. One of the dimensions of commitment to change is affective commitment to change, i.e. the desire of the employee to provide support for organizational change based on the belief in the benefits of change. According to Herscovitch & Meyer,<sup>4</sup> affective commitment to change is the best commitment in predicting the employees' effort to support organizational change. One of a crucial organizational factor of affective commitment to change is a leader.<sup>5</sup>

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Meanwhile, previous studies<sup>6-9</sup> also showed that a leader with his/her own style has a critical role in the success of an organization, including in the success of organizational change.

A transformational leader is a leader who engages and creates good relationships with his subordinates that in turns increase his subordinates' morale and motivation.<sup>10</sup> Transformational leaders stimulate and inspire their subordinates to achieve extraordinary results and, in the process, develop their own leadership capacity.<sup>11</sup> Research conducted by Chou<sup>12</sup> and Herold et al.,<sup>5</sup> found that transformational leadership has a positive impact on affective commitment to change. However, the results of the study between transformational leadership on affective commitment to change were not consistent, the study by Sulistiono<sup>13</sup> showed that there was no significant correlation between transformational leadership on affective commitment to change. Based on these findings, we conducted a research about transformational leadership on affective commitment to change. One of the individual factors that play a big role in affective commitment to change is self-efficacy.<sup>14</sup> In this regard, change self-efficacy refers to self-efficacy specific in the setting of change.

This study aims to identify and compare the effect of transformational leadership and employees' change self-efficacy on affective commitment to change, as well as to identify the differences or similarities between the two

institutions, banking, and insurance companies. This current research is conducted on employees who work in those industries mentioned above that are currently facing or have undergone organizational change.

## 2. LITERATURE REVIEW

Herscovitch and Meyer,<sup>4</sup> stated that commitment to change is a force (mind-set) that binds an individual to a course of action is deemed necessary for the successful implementation of a change initiative. There are three dimensions of commitment to change namely: affective commitment to change, normative commitment to change and continuance commitment to change. However, affective commitment to change is called as the representative of the commitment to change, as affective commitment to change can be called as one of cooperation, championing, and discretionary behaviour<sup>4</sup> which can expedite organizational change.<sup>15</sup>

Transformational leaders are leaders who stimulate and inspire their subordinates to achieve extraordinary results and, in the process, develop their own leadership capacity.<sup>16</sup> According to Bass and Riggio,<sup>16</sup> transformational leadership consists of several dimensions that include idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, and with those 4 (four) dimensions transformational leader, it enables to inspire and motivate their followers.

Wanberg and Banas<sup>17</sup> define change self-efficacy as individual's perception of his ability to handle the situation of change and to keep working well despite the demands of change. In relation to this, the study by Herold et al.,<sup>18</sup> found that change self-efficacy has a positive and significant relationship to employees' commitment to change. Previous studies<sup>18</sup> argues that transformational leaders play a significant role in the success of organizational change especially in developing affective commitment to change. With these conditions, people will trust their leader and will do whatever their leader is asking for, including a commitment to change. Previous studies also showed that characteristic of people has a positive impact on commitment to change.<sup>19-21</sup> Change self-efficacy is a self-efficacy specific in the setting of change, or an individual behaviour that has a great influence in the emergence of self-confidence during a period of organizational change. Previous studies by Aini<sup>22</sup> showed that Change self-efficacy had a positive impact on commitment to change. Based these arguments, the researcher of the current study developed the following hypothesis:

Hypothesis 1: Transformational Leadership has a positive impact on affective commitment to change

Hypothesis 2: Change self-efficacy has a positive impact on affective commitment to change.

## 3. METHODS

Respondents (N 207) are employees with a minimum educational background of high school graduated who have worked for at least 2 years in banking and insurance industries who have undergone organizational change. The major of respondents are male (138 people or 66.7%). The majority of respondents or 109 people (52.7%) were under 30 years of age. From the level of education, most of the respondents have educational background of bachelor degree (136 people, 65.7%). According to the length of service there were as many as 178 respondents (86%) were between 2-10 years. We used questionnaires that have been validated and used by Mangundjaya<sup>19</sup> and Aini,<sup>22</sup> consisted of affective commitment to change developed by Herscovitch and Meyer<sup>4</sup> and had been adapted to Bahasa Indonesia by Mangundjaya,<sup>19</sup> consisted of 6 items. The second questioner is transformational leadership variable was assessed using Multifactor Leadership Questionnaire Form 5 (MLQ 5X) instrument that was consisted of 20 items<sup>24</sup>. that has been adapted to Bahasa Indonesia. The third questionnaire is changed self-efficacy using Change Related Self-Efficacy instrument that has been adapted by Aini<sup>22</sup> to Bahasa Indonesia from Ashford's Change Self-Efficacy Instrument (1988). It consisted of 4 items. This research used descriptive and hierarchical multiple regression was used to analyse the data.

## 4. RESULTS

. *Independent-samples t-test* analysis was conducted to compare variable scores in banking and insurance industries. There were no significant differences in affective commitment to change scores in banking industry (M = 4.32, SD = 0.76) and insurance industry (M = 4.24, SD = 0.70);  $t(205) = 0.795$ ,  $p = 0.428$ . In addition, there were no significant differences in transformational leadership scores in banking industry (M = 4.54, SD = 0.74) and insurance industry (M = 4.57, SD = 0.54);  $Tt(205) = 0.304$ ,  $p = 0.761$ . On the other hand, it was found that there were significant differences in change self-efficacy score in banking industry (M = 4.15, SD = 0.92) and insurance industry (M = 3.81, SD = 0.79);  $t(205) = 2.837$ ,  $p = 0.003$ , in which change self-efficacy scores in banking industry were significantly higher than insurance industry.

**Table 1.** The results of Multiple Hierarchical Regression Results between Industries

Organization	Variable	Affective Commitment to Change				
		R	R <sup>2</sup>	$\Delta R^2$	$\beta$	Sign.
Banking (N=102)	Transformational Leadership	0.16	0.03	0.03	0.16	0.11
	Change Self Efficacy	0.31	0.10	0.07	0.27	0.01**
Insurance (N=105)	Transformational Leadership	0.27	0.07	0.07	0.22	0.01**
	Change Self Efficacy	0.61	0.38	0.30	0.55	0.00**

\*\*significant at l.o.s  $p < 0.01$  (one-tailed)

A two-stage multiple hierarchical regression was conducted to see how much the contribution of one of the two independent variables, namely change self-efficacy and transformational leadership, to affective commitment to change after controlling

the other variables. Affective commitment to change was included as the dependent variable. The multiple hierarchical regression analysis was performed by incorporating transformational leadership at the first level and change self-

efficacy at the second level of regression. Inter-correlation between multiple hierarchical regressions can be seen in table 4. Two-staged multiple hierarchical regressions were conducted by incorporating affective commitment to change as the dependent variable. Transformational leadership was incorporated at the first level and change self-efficacy at the second level of regression. It was found that in insurance industry, transformational leadership ( $\beta = 0.23$ ,  $p = 0.006$ ,  $p < 0.01$ ) and change self-efficacy ( $\beta = 0.55$ ,  $p = 0.000$ ,  $p < 0.01$ ) were significant predictors of affective commitment to change. On the other hand, in the banking industry, only change self-efficacy that had the influence factor ( $\beta = 0.27$ ,  $p = 0.006$ ,  $p < 0.01$ ).

From multiple hierarchical regression analysis, the greatest influence on affective commitment to change was changed self-efficacy. These results were consistently found in both banking and insurance industries. In the banking industry, change self-efficacy uniquely explained 7.1% variation in affective commitment to change. Meanwhile, change self-efficacy in insurance industry uniquely explained 29.6% variation of affective commitment to change and transformational leadership explained 7.0% variation of affective commitment to change. It can be concluded that the effect of transformational leadership on a commitment to change cannot be generalized.

## 5. DISCUSSION & CONCLUSION

The results of this study showed that change self-efficacy has a positive impact on affective commitment to change both in banking and insurance industries. These findings are in line with previous findings by Aini<sup>22</sup> which found that change self-efficacy has a positive and significant relationship on a commitment to change. This current study also showed that transformational leadership has a positive impact on affective commitment to change in insurance industries. These findings are in line with previous findings by Herold et al.,<sup>18</sup> Herold et al.,<sup>5</sup> and Chou<sup>12</sup> who found that transformational leadership has a positive and significant effect on a commitment to change, especially affective commitment to change. However, the similar results were not found in banking industries. These results can be explained from many angles: first, it is assumed to be related to the characteristics of the organization, banking and insurance companies also have similarities, but also have differences in relation with types of works, types of stress, a well as differences in organizational culture might have a role to play in the results of this study. The organizational culture and the way of working in banking industries may differ from insurance industries. It may be that transformational leadership that emphasizes good relationships with employees are not relevant in enhancing employees' affective commitment to change in banking industries in Indonesia, which might be due to organizational culture and national cultural differences. In this regard, further studies should be conducted, a survey is needed to conduct these differences which might be useful and important for each institution.

Furthermore, it was also found that change self-efficacy has a greater impact on affective commitment to change than transformational leadership. The results of this study are also in accordance with the findings of Caprara and Steca<sup>24</sup> that self-efficacy is a cognitive structure that plays directly and has the greatest role in individual behaviour. Some limitations of the study are as follows: First, the data was collected through self-reports (questionnaires), which might create potential common method bias,<sup>25</sup> and social desirability effects. Second, this study was based on cross-sectional data, thus, no causal relationship should be inferred, as a result more longitudinal studies across

organizations are needed; and lastly, this study was conducted at two types of organizations namely, banking and insurance, in which the results cannot be generalized. Based on this result, management should pay more attention in developing change self-efficacy of their employees. Conducting some development programs such as training, mentoring, coaching, counselling, as well as creating conducive organizational climate can be implemented.

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