The Role of Work Engagement in Mediating the Relationship Between Transformational Leadership and Employee Performance: Evidence from PT Bank Sinar Lestari Utama Tbk

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This study examines the effect of transformational leadership on employee performance with work engagement as a mediating variable. The theoretical framework used is social exchange theory and the Job Demands–Resources model. Primary data were collected through a survey of 185 permanent employees at a banking company (case study) using a five-point Likert scale questionnaire. Analysis was conducted using stepwise multiple linear regression with tenure and gender as control variables, and the significance of the indirect effect was tested using bootstrapping with 5,000 resamples. The results indicate that transformational leadership has a positive effect on work engagement ($b = 0.622$; $p < 0.001$) and on employee performance (total effect $b = 0.476$; $p < 0.001$). Job engagement positively influences performance ($b = 0.478$; $p < 0.001$) and partially mediates the leadership–performance relationship (indirect effect = 0.297; 95% CI [0.202; 0.396]), with a mediation proportion of approximately 62.4%. These findings indicate that transformational leadership improves performance primarily by enhancing employees' energy, dedication, and engagement in their work. Managerial implications and directions for further research are discussed in the final section.
Keywords: transformational leadership; work engagement; employee performance; mediation; financial services

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1. Introduction

Financial services companies operate in a demanding environment. Strict regulations, accelerated digitalization of services, and competition from technology-based players require employees who not only adhere to procedures but also adapt and add value to customers. Because financial services products are relatively easy to imitate, competitive advantage shifts to the quality of human resources and how they are managed. In this context, employee performance becomes a key indicator of organizational effectiveness, while the role of direct leadership becomes the factor most closely related to daily work experience.

Transformational leadership, a leadership style that inspires followers to transcend self-interest for the sake of shared goals (Burns, 1978; Bass, 1985), has long been one of the most researched approaches. Meta-analytic reviews indicate that this style is positively related to various success criteria, including individual, group, and organizational performance (Judge & Piccolo, 2004; Wang et al., 2011). However, the question of how transformational leadership works remains an interesting area of research. Evidence on the psychological mechanisms that mediate leaders' influence on performance is relatively scarce compared to evidence on its direct influence, particularly in the financial services sector in developing countries.

Job engagement, a positive and satisfying affective-cognitive state characterized by vigor, dedication, and absorption (Schaufeli et al., 2002), is a strong candidate mechanism. Kahn (1990) views engagement as a total self-investment in the work role, which grows when workers perceive meaning, security, and resource availability. Transformational leaders can influence these three states through a meaningful vision,

individual support, and intellectual stimulation. Furthermore, job engagement has been shown to be related to both task performance and contextual performance (Christian et al., 2011; Rich et al., 2010).

Based on the above description, this study aims to (1) examine the influence of transformational leadership on employee work engagement and performance, (2) examine the influence of work engagement on employee performance, and (3) examine the mediating role of work engagement in the relationship between transformational leadership and performance. This study contributes in three ways. First, this study provides empirical evidence regarding the mediation mechanism in the context of financial services. Second, this study integrates social exchange theory and the Job Demands–Resources model into one explanatory framework. Third, this study offers practical implications for leadership development and employee engagement strategies.

2. Literature Review and Hypothesis Development

Transformational leadership

Bass (1985) developed Burns' (1978) ideas by stating that transformational leaders change followers' values, needs, and aspirations so that they are willing to contribute beyond their initial expectations. This style is commonly operationalized through four dimensions (Bass & Avolio, 1994): idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Leaders who display these four behaviors serve as role models, articulate a compelling vision, encourage new ways of looking at problems, and attend to the development needs of each team member.

Employee work engagement and performance

Schaufeli et al. (2002) define job engagement as a positive and satisfying state of mind related to work, with three dimensions: vigor (energy and mental resilience), dedication (a sense of meaning, enthusiasm, and pride), and absorption (full concentration and engrossment). Employee performance in this study is understood as in-role performance, namely the extent to which employees fulfill the tasks listed in their job descriptions (Williams & Anderson, 1991).

Theoretical basis and hypothesis

Social exchange theory (Blau, 1964) explains that positive treatment from the organization, in this case the direct leader, creates reciprocal obligations in employees that are manifested in the form of greater effort and commitment. The Job Demands–Resources Model (Bakker & Demerouti, 2007) adds that job resources, such as supervisor support, feedback, and development opportunities, stimulate motivational processes that lead to engagement and performance. Transformational leaders are important social resources that provide meaning, support, and challenge. A daily study by Breevaart et al. (2014) showed that transformational leadership behavior on a given day was related to employee engagement on the same day. Thus, it is formulated:

H1: Transformational leadership has a positive effect on work engagement.

Engaged employees have greater energy and focus, enabling them to complete tasks with better quality and accuracy (Christian et al., 2011; Rich et al., 2010). Therefore:

H2: Work engagement has a positive effect on employee performance.

In addition to the engagement pathway, transformational leaders can influence performance directly through goal clarity, high standards, and competency support (Judge & Piccolo, 2004; Wang et al., 2011). Thus:

H3: Transformational leadership has a positive effect on employee performance.

If transformational leadership increases engagement, and engagement increases performance, then job engagement is expected to be a mechanism that partially explains the leadership-performance relationship. The fourth hypothesis is:

H4: Work engagement mediates the effect of transformational leadership on employee performance.

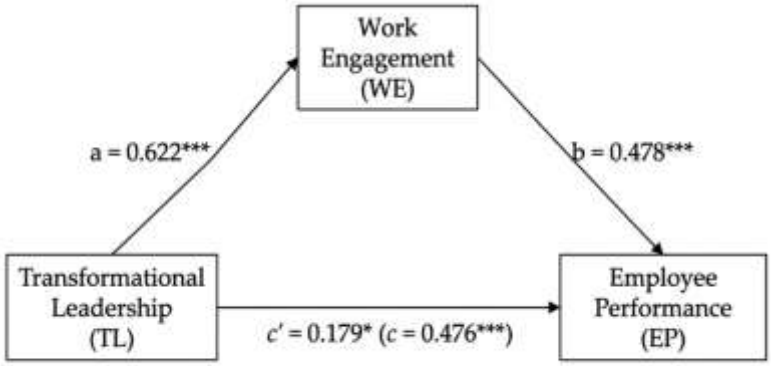


Figure 1. Research model and path estimation results (unstandardized coefficients)

Note: * p < 0.05; *** p < 0.001. Control variables (tenure and gender) are not depicted.

3. Research Methods

Design, population, and sample

This research employed a quantitative approach with an explanatory cross-sectional survey design. This research was a case study of a banking company. The population comprised all permanent employees at the company's head office and branch offices. The sample was determined using a purposive sampling technique with the following criteria: (a) permanent employee status, (b) minimum tenure of one year, and (c) having the same direct supervisor for at least the past six months. The sample size met the general rule of at least 10 times the maximum number of paths leading to a single variable and exceeded the requirement for a regression model with four predictors (Hair et al., 2019). The study was conducted at PT Bank Sinar Lestari Utama Tbk, so all respondents worked within the same leadership system, culture, and HR policies. Questionnaires were distributed to employees who met the criteria, resulting in 185 eligible respondents. 48.1% of respondents were female, with an average tenure of 6.6 years (SD = 4.3).

Measurement of variables

All variables were measured using a five-point Likert scale (1 = strongly disagree; 5 = strongly agree). Transformational leadership was measured using eight items (two for each dimension) adapted from the framework of Bass and Avolio (1994). Work engagement was measured using six items adapted from the Utrecht Work Engagement Scale (Schaufeli et al., 2002), which included vigor, dedication, and absorption. Employee performance was measured using six in-role performance items adapted from Williams and Anderson (1991). The questionnaire was translated into Indonesian using a back-translation procedure and tested for readability on ten respondents before distribution. Length of service (years) and gender (0 = male; 1 = female) were included as control variables.

Analysis techniques

The analysis included reliability tests (Cronbach's alpha coefficient with a threshold of 0.70; Nunnally & Bernstein, 1994) and corrected item-total correlations, descriptive statistics, Pearson correlations, and multicollinearity tests using the variance inflation factor (VIF). Hypothesis testing used three multiple linear regression equations: (1) job engagement regressed on transformational leadership, (2) performance

regressed on transformational leadership, and (3) performance regressed on transformational leadership and job engagement simultaneously, all with control variables. The mediation logic followed the procedures of Baron and Kenny (1986), but the significance of the indirect effect (a × b) was assessed using 95% bootstrap percentile confidence intervals from 5,000 resamples as suggested by Preacher and Hayes (2008) and Hayes (2018), and the Sobel test was reported as a comparison. Potential common method bias was evaluated using Harman's single-factor test (Podsakoff et al., 2003).

4. Results and Discussion

Data quality and descriptive statistics

All constructs have good internal reliability. Cronbach's alpha values were 0.915 for transformational leadership, 0.896 for work engagement, and 0.890 for employee performance, with corrected item-total correlations ranging between 0.68 and 0.76. The highest VIF value was 1.59, well below the threshold of 5, indicating no multicollinearity issues. In Harman's single-factor test, the first factor explained 45.3% of the total variance (below 50%), indicating that common method bias does not appear to be dominant, although this test is not an absolute guarantee.

Table 1 presents descriptive statistics and correlations. The average for all three variables is in the high category (above 3.6 out of 5). All three variables are positively and significantly correlated, with the strongest correlation between transformational leadership and work engagement (r = 0.605).

Table 1. Descriptive statistics, reliability, and correlation between variables (n = 185)

Variables	Item	Average	Elementary School	α	1	2	3
1. Transformational leadership (KT)	8	3.64	0.73	0.915	1		
2. Work involvement (KK)	6	3.81	0.75	0.896	0.605**	1	
3. Employee performance (KJ)	6	3.84	0.72	0.890	0.465**	0.596**	1

Note: ** p < 0.01 (two-tailed). Source: processed primary data.

Hypothesis testing

Table 2 presents the results of three regression models. In Model 1, transformational leadership has a positive and significant effect on job engagement (b = 0.622; SE = 0.061; p < 0.001) with R^2 = 0.368, thus supporting H1. In Model 2, transformational leadership has a positive effect on employee performance (total effect b = 0.476; SE = 0.065; p < 0.001; R^2 = 0.234), thus supporting H3. In Model 3, when job engagement is included, job engagement has a positive and significant effect on performance (b = 0.478; SE = 0.071; p < 0.001), thus supporting H2. In the same model, the coefficient of transformational leadership decreases from 0.476 to 0.179 but remains significant (p = 0.015), and the model's apparent power increases to R^2 = 0.389.

Table 2. Multiple linear regression results: unstandardized coefficient b (standard error)

Predictor	Model 1 DV: KK	Model 2 DV: KJ	Model 3 DV: KJ
Transformational leadership	0.622*** (0.061)	0.476*** (0.065)	0.179* (0.073)
Work engagement	–	–	0.478*** (0.071)
Length of service (years)	0.002 (0.011)	−0.021 (0.011)	−0.022* (0.010)
Gender (1 = female)	−0.048 (0.089)	−0.066 (0.094)	−0.043 (0.084)
R^2	0.368	0.234	0.389
R^2 adjusted	0.357	0.221	0.376
F	35.07***	18.38***	28.69***

Note: DV = dependent variable; KK = work engagement; KJ = employee performance. * $p < 0.05$; *** $p < 0.001$. Constants not reported. Source: processed primary data.

To test H4, the indirect effect was calculated as the product of the path coefficients a (KT → KK) and b (KK → KJ). As shown in Table 3, the indirect effect was 0.297 with a 95% bootstrap confidence interval [0.202; 0.396] that did not include zero. The Sobel test yielded a unidirectional result ($z = 5.64$; $p < 0.001$). Since the direct effect remained significant, the mediation was partial, and approximately 62.4% of the total effect of transformational leadership on performance was channeled through work engagement. Thus, H4 was supported.

Table 3. Decomposition of the effects of transformational leadership on employee performance

Effect	Coefficient (b)	Inference	Decision
Total (c)	0.476	$p < 0.001$	Significant
Direct (c')	0.179	$p = 0.015$	Significant
Indirect (a × b)	0.297	Bootstrap 95% CI [0.202; 0.396]	Significant
Mediation proportion (a × b / c)	62.4%	–	Partial mediation

Note: Bootstrap 5,000 resamples; control variables: tenure and gender.

Discussion

Support for H1 aligns with social exchange theory and the JD-R framework. Supervisors who convey a meaningful vision, attend to individual needs, and stimulate new ways of thinking provide psychological resources that make employees feel their work is meaningful and supported, conditions Kahn (1990) identified as prerequisites for engagement. These results are consistent with Breevaart et al.'s (2014) finding that transformational leadership is related to employee engagement. In the financial services sector, where targets and compliance pressures are high, transformational leaders appear to act as a buffer, transforming work demands into meaningful challenges.

The positive effect of job engagement on performance (H2) aligns with the meta-analytic synthesis of Christian et al. (2011) and Rich et al. (2010) that engaged employees devote greater physical, emotional, and cognitive energy to their roles. The direct effect of leadership on performance (H3) also aligns with meta-analytic evidence (Judge & Piccolo, 2004; Wang et al., 2011).

The most important finding is the partial mediation of job engagement. Most of the benefits of transformational leadership on performance do not come from direct orders or supervision, but rather from changes in employees' psychological states. The remaining direct effects suggest other pathways, such as role clarity, self-efficacy, or goal alignment, that have not been modeled. Interestingly, tenure is also negatively related to performance after controlling for engagement ($b = -0.022$; $p = 0.028$). This pattern may reflect routine saturation among senior employees, but this interpretation is speculative and requires further testing.

5. Conclusions

This study concludes that transformational leadership positively influences employee work engagement and performance, that work engagement positively influences performance, and that work engagement partially mediates the effect of transformational leadership on performance. Theoretically, these results strengthen the explanation that leadership influences performance through motivational processes, not solely through behavioral control.

Practically, there are three implications for HR managers in financial services companies:

a. Leader development programs need to emphasize transformational behaviors (vision articulation, individual coaching, and intellectual stimulation), not just target management skills.

b. Work engagement should be monitored as an early indicator through regular surveys, as it is the primary channel of leadership influence on performance.
c. Line manager performance appraisals can include subordinate feedback on leadership behavior, so that the leader's influence on team engagement is measurable and can be developed.

This study has several limitations. First, the cross-sectional design and single-source perceptual data limit causal inference and pose a risk of common method bias, although Harman's test did not indicate the dominance of a single factor. Second, performance was measured through self-assessments, which are potentially inflated by social desirability bias; future research is recommended to use supervisor ratings or objective indicators. Third, this study did not examine moderating variables such as organizational culture or workload. Fourth, the case study of a single company and the purposive sampling limit generalizability to other financial services companies, although controlling for the same organizational context minimizes unobserved variation across companies. Further research could compare multiple companies or subsectors (banking, finance, insurance), employ longitudinal or multi-source designs, use covariance-based structural equation modeling (PLS), and include parallel mediators such as self-efficacy and role clarity.

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