

# Digital Transformation in the Indonesian Banking Industry: Impact on Employee Engagement

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Digital transformation in Indonesian Banking industry is now in progress. The need for transformation is essential and has become a top priority for companies in order to be more agile in the rapidly changing and evolving market. Changes that occur are fundamental, disruptive and very dynamic. Work procedures and conditions that have been running conventionally for decades must be radically changed to ensure the company can adapt in the competitive landscape. Company must implement an integrated digital transformation strategy to enhance the company' performance and therefore increase the possibility of a sustainable long term business for the company. As the changes impact most areas of the company, it also has great influences in the human resource practices and the working environment. The consequences of change are going to directly affect the psychological condition of employees. If this is not handled properly it might have a negative influence on the changes themselves; since companies need commitment and engagement from their employees in this phase. This paper will present the results of a survey conducted in a private bank that has carried out technology-based changes for one year. It also has suggestions for further research about the issues discussed.

**Key words:** *Digital transformation, banking industry, agile employee engagement.*

## Introduction

Rapid digital transformation is currently underway and affects almost all areas of life. Digital transformation as described by Iansiti and Levien is a process which is strongly driven by the

demands of the disruption era in various industrial spheres through the disruption of business models. As stated by Berman, it results in the emergence of new ecosystems that are more innovative, complex and dynamic (Berman 2013, Iansiti and Levien 2004). A proper digital transformation strategy will encourage business processes to make revolutionary changes in the way businesses operate, interact & configure, according to Reddy (Reddy et al, 2017). Based on research by Omarini (Omarini, 2018), in the Banking industry digital transformation processes not only provides an opportunity to make a complete overhaul of the work processes and systems that have been running so far, thus producing more efficient and effective process, but also provides an opportunity for customers to enhance their experiences during the development process. In terms of revenue Vong (Vong et al, 2016), stated that banking companies will be able to reduce costs related to labour and operations. Transformation must be carried out quickly and adaptively because in an era of disruption, time is an essential variable that influences the sustainability of the company.

In addition to maintaining the existence of companies in the era of disruption, the whole transformation process should be able to increase positive relations and engagement with customers. Hendriyani (Hendriyani et al, 2018), stated that if the changes are conducted in a way that is in line with the demands of the era of disruption, the bank will not only increase its competitive advantage but also will be able to extract a database which if properly processed will illustrate customer preferences, for further product strategy development. Digital transformation has two sides. A strong impact will be felt as a result of changes in the way customers do transaction. Distribution channels such as internet banking, mobile banking, Chabot, artificial intelligence and social media applications are increasingly being used. If the digital strategy is implemented appropriately, in line with customer demands, it is expected that there will be an increase in customer loyalty. On the other hand, Nguyen (Nguyen, T. et al, 2018), stated that digital technology will reduce and threaten the existence of traditional banking with manual counters and manual transactions. This means there will be cuts in work procedures, manual labour and it consequently means a reduction in related human labour (Maulana et al., 2019).

This paper will discuss the impact of rapid changes due to company's digital transformation on several aspects of human resources. The survey was conducted among 41 staff of a private bank that has been running a digital transformation program for one year. The survey results stated in this paper can be expanded for further research.

## Literature Review

### *Digital Transformation in Indonesian Banking Industry*

Digital transformation in the Indonesia banking industry started quite late compared to other Asian countries, such as Malaysia, Singapore and South Korea. This is due to, among other things, the geographical conditions of Indonesia which is an archipelago, where digital literacy is not homogeneous and people still have traditional beliefs and preferences for doing their banking in conventional physical branches. The first wave of digitalisation in the Indonesian Banking Industry started as early as 1980s when automated teller machines (ATM) was introduced widely and became alternative solutions for doing banking transactions. However, until the late 1980s, some Indonesian banks still relied on semi manual bookkeeping and transactions were still dominated by cash. In 1990 when the need for interbank transactions increased, the clearing system of the government began to be strengthened. Some banks began to invest in technology, considering it as the solution to overcome the threat emerging from foreign bank business activities in Indonesia. Banks then began to improve the internal payment system, starting the new era of online transactions. In the 2000s the development of banking technology became a necessity because banks that had survived the 1998 Indonesian economic crisis, where a number of banks had gone bankrupt, now had to compete with each other to fight over the customers which at that time had lost their trust in banks. In the following decade, 2010s onward, the advantage of digital banking has become one of the important points that made banks survive the second economic crisis. This phase encouraged banks to invest more in digital projects, creating the second wave of digitalisation in Indonesia. Several banks started to use various social media platforms to deliver, introduce and socialise various product features that are beneficial for their customers such as: open customer complaints service channels; and encourage interactive two-way communication, so that customers feel more connected and respected. These strategies eliminated the old paradigm that banking services can only be accessed through conventional branches. The demands of banking digitalisation were also strengthened by a shift in business ownership, which is currently dominated by millennial generations, who prefer the convenience of online and mobile transactions.

The number of internet users in Indonesia, as per 2018 was 54.68% of the total population of 262 million (Indonesian Ministry of Communication and Information Technology, 2018). The most widely accessed application by Indonesian internet users according to the Indonesian Internet Service Providers Association (APJII, 2018), is chat applications (87.13%) and social media (74.84%). Only 7.39% of all Internet users used internet connected banking or mobile banking services. However, the constant increase in the number of social media application users became one promising niche for banks to change marketing strategies from conventional to digital, so as to encourage literacy of digital banking services.

Another urgent encouragement for digitalisation is the emergence of highly competitive non-banking financial technology companies, which provide financial services similar to those offered by the banks. The Fintech business is slowly beginning to erode retail banking services because of its easy access and simplicity of bureaucracy. If not taken seriously, Fintech businesses might endanger the sustainability of the conventional banking industry. According to Capgemini (Capgemini, 2016), around 63.1% of banking customers also use the services of Fintech companies globally, with the largest users in Latin America (77.4%) and Europe (68.9%). In addition, the growing number of customers from younger generations, who are more technology conscious, has made the Fintech business grow rapidly in Indonesia.

The digital transformation in banking became a turning point for the banking world because if it was not implemented immediately it would reduce the competitiveness of the local banking business compared to international banking, causing systemic risk in the event of a global financial crisis, according to Shaik (Shaik et al., 2017).

As of February 2018, based on data by PWC (Pricewater House Coopers, 2018), the number of customer transactions in digital channels (35%) has exceeded those in traditional branches (30%). Whereas in 2015 the comparison was 10% transactions done through digital channels versus 75% transactions in traditional branches. Consequently, according to Indonesian Banking Regulators data, there was a 2% decrease in the number of banking branch offices from 32,730 in 2016 to 32,242 in 2017, while the numbers of e-banking users increased 270% from 13.6 million customers in 2012, to 50.4 million customers in 2016. Putra (2017) recorded that the volume of transactions via e-channel grew by 169% from 150.8 million transactions in 2012 to 405.4 transactions in 2016.

Digitalisation has an influence on shifting customer's perspectives about the easiest way to do banking transactions. The future of banking according to PWC (2018), will then shift from traditional product-centric banks to customer-centric digital banks. The bank is then obliged to put pressure on the consumer banking area, which is predicted to be the most eroded area by the Fintech businesses. The Indonesian Banking Regulator has identified this change and issued regulations in the form of guidelines and directives for banks to conduct digital banking services (Pakdel & Talebbeydokhti, 2018).

Organisations recognise that digital transformation has advantages such as to improve efficiency and enrich customer experience. But the digital strategic actions are not merely to add products within digital platforms or to add new state of the art machines but must include a comprehensive strategy covering processes, talent engagement and business models. Many organisations have failed in carrying out the transformation process, because among other things, they focus more on individual strategies of specific operational conditions, carried out

in certain time periods and do not consider the future impacts. Companies that have digital maturity will demonstrate their ability to transform their business to: keep up with the development of the disruption era; improve efficiency that has a direct impact on revenue; improve work processes; continue to commit to innovation; and especially provide added value to the customer experience that in the end will reach customer engagement. According to Kiron and Kane (Kiron et al 2016, Kane et al 2015), organisations must also have employees with the skills for these strategies.

The opportunity that awaits the banking industry for the success of its digital transformation is to increase revenue from the launch of innovation which results in the form of new products/services or enhancement of existing services said Broeders & Khanna (Broeders & Khanna, 2015). The ease of processing data collected from the use of digital services can be used to build master data that will be used for the cross selling process, which is also expected to contribute to the potential for revenue increase. Helper stated that the industry also benefits from reduced operational costs, such as labour costs, overheads and other costs, due to the process of migrating transactions to digital (Helper et al, 2019). The existing procedures and bureaucracy must be trimmed so that services are more concise and faster. Changes made not only bring machinery, provide access to digital services and provide Chabot services but must make radical integration of bank services as a whole. Research from Azis, Zakaria and Burnes (Azis et al 2017, Zakaria et al 2011, Burnes 2000), mentioned that over organisational changes based on technological developments, over the past three decades, indicate a 40-70% failure rate worldwide. Some researchers revealed that one success factor is the capability of the leaders. From his research, Thomson (Thomson et al 2016), concluded that leaders had a major influence on organisational performance and also had a dual role in event of organisational change, namely as leaders and pioneers/agents of change. Leader's attitudes are fundamental factors which determine the success of change, leader's courage to review and initiate work processes could make overall procedures become more adaptive and encourage innovation according to Wang and Ghasabeh (Wang et al 2017, Ghasabeh et al 2015).

### ***The Impact of Digital Transformation on Employee Wellbeing***

Research by Anderson and Anderson (2010), stated that when companies make radical changes, the process could affect employees emotionally. The important issue is how to manage and control negative emotions that may arise during change into positive energy, so as to provide a good and useful impetus in the process of change. The workers' perceptions of the possibility and risk of labour reduction and declining career opportunities, plus a decrease in level of self efficacy, as a result of changes in procedures, digitisation processes and changes in other conditions have the potential to be the source of job stress, as stated by Keane, Chiesa, Van Dijk and Burgess based on their research (Keane 2018, Chiesa et al

2016, Burgess 2016, Van Dijk et al 2009). This condition, according to Teo and Refferty (Teo et al., 2016, Rafferty & Griffin 2006), often makes workers have a tendency to resist the change, so that they will eventually take actions that hinder the course of change itself. The research by Hornstein (2015), stated that to ensure the absence of obstacles to change, it is necessary to take into account all possible and future aspects and conditions.

Eldor (2017), stated that service sector workers who experience stress until burnout, if not handled properly, will reduce the level of engagement and performance. Norbert (2015) emphasised that failure to complete tasks would make a worker more stressful, especially if the tasks were: unclear; orders were overlapping; time tabs were conflicted; and performance was excessively under supervision. These conditions are commonly found in organisations that are undergoing radical changes.

Changes in provisions, standard procedures and other initiatives can reduce the value of self efficacy. According to Niu (2010), self-efficacy is the employee's personal view of his ability to organise and execute the steps needed to achieve the target or goal and is one of the important factors that determine self-control and create changes in workers' behaviour towards changes to their work. Self-efficacy explained by Wang and Yakin (Wang et al 2017, Yakin et al 2012), is needed in the transformation process because it is essential for an individual to trust in their ability to face new changes and challenges. According to Rapp (Rapp et al 2015), if an employee has confidence in their ability to complete their tasks, it will positively affect their level of engagement and lead to improved performance.

To enable change, organisations need a leadership climate that supports and encourages all processes of change. According to Jcaglobal (2018), the leadership climate is an emotional atmosphere created by leaders in the work environment. Leadership climate can build a positive work environment according to a research conducted by Sarros (Sarros et al 2008), and it will lead to better work performance and strong employee engagement.

Job satisfaction is also a very important aspect for workers in the service industry because workers who are satisfied with their jobs will provide good service to their customers, according to research by George (2015). An indication of job dissatisfaction is a high turnover intention rate. Yakin (Yakin et al, 2012) and Maharani (Maharani et al 2013), found a positive relationship between job satisfaction and employee engagement, where a high level of engagement is highly dependent on the level of employee job satisfaction. A research by Maida, Riyanto and Ali (2017), found that job satisfaction and leadership style were strongly connected with employee productivity. Riyanto (2017) also found that a strong relationship between job satisfaction and employee performance would have a significant effect on the company performance.

Changes that occur because of digital transformation are radical changes, since they not only change a number of work procedures but also the working environment and structure of organisations that have remained unchanged for years. To ensure the transition runs smoothly, Kahn (1990), stated that companies need engaged employees, namely employees who are physically able to express themselves cognitively and emotionally while doing their work and in the end will provide the best benefits for the organisation. Maintaining a level of engagement according to Cohen (2017), is part of the strategy to maintain the excellence of the company's HR and is one way to maintain the company's competitive advantage. Stephen Hickey (2018), said that from AON's research, the level of employee engagement in Asian countries tended to be higher than in other parts of the world (2017 was at 65%), indicating that although many organisations in Asia might face difficult times regarding digital disruption and experience challenges related to difficult macroeconomic conditions and uprising expectancies in customer demands, the company's policy of maintaining the level of engagement of its employees was considered successful.

Regarding the changes that have occurred in the Indonesian banking industry, there is concern on the part of management. How is the psychological condition of staff towards this transformation process? Is staff enthusiastic about undergoing change or is it a cause of decreased motivation and performance? What is the confidence of the staff about the future? Is the company able to enhance employee's knowledge and abilities in the face of change? Will employee engagement be effected? In comparison, in early 2017 banks in the European Union closed 9,100 branches and lay off more than 40 thousand employees, due to changes in the way customers conduct transactions (data from the European Banking Federation, 2017). In the next few years, Indonesia is predicted to experience the same cycle, when the majority of customers start using e-banking applications.

### ***Research Method***

This research used quantitative approach with a survey method. The survey was conducted on 41 employees from a private bank branch located in the largest trading business area of Jakarta (the capital of Indonesia) in February 2019. This branch had a total of 110 employees and had carried out a digital transformation process for one year.

### ***Survey Result & Discussion***

The survey was conducted using questionnaires with the Likert scale 1-5. A follow up interview was added to gain input for leadership style expected from all employees. The results are shown in Table 1 and Table 2.

**Table 1:** Survey Result 1

Variable	Dimension	Statement	% Y	% N
Self-Efficacy (Bandura 1997, 2006)	Magnitude	I am sure my abilities will make me irreplaceable	53.66	46.34
		I am very interested in following the changes	87.80	12.20
		I want to learn to master the changes in the way things work	97.56	2.44
	Strength	I have the ability to follow changes	60.98	39.02
		I can certainly follow the changes under any circumstances	75.61	24.39
	Generality	I'm afraid my job will be replaced by a machine	65.85	34.15
		This project will definitely make my company more superior	100.00	0.00
Perceived Leadership (Bass et al 2010)	Inspirational Motivator	My supervisor helped me through this change	87.80	12.20
	Influential	My supervisor explained the importance of the new project clearly	100.00	0.00
		My supervisor was very helpful when I had difficulty doing my work	87.80	12.20
Work Stress (Avey, Luthans et al 2009)	Psychological	I feel uncomfortable with many changes	41.46	58.54
		I feel the demands of work now make me anxious	43.90	56.10
Turnover Intention (Chen & Fransesco 2000)	Turnover Intention	I am considering resigning from my company	19.51	80.49
	Future Prospect	I feel I have a promising future if I continue working in this company	68.29	31.71

**Table 2:** Survey Result 2

Statement	Number of Responses
Leaders consistently explain the reasons and background for why important changes to each procedure are carried out	62%
The leader assured me that together we will achieve future goals	69%
The leader ensures we always update to the latest developments	69%
Leaders take the time to help me adapt and treat me as an individual	100%

The majority of staff (87.80%) was enthusiastic about the changes that occurred. Almost all staff (97.56%) had the desire to learn and master the work changes but 50% felt worried about being replaced due to digitalisation. More than half of the staff (65%) felt worried that their work will eventually be replaced by a machine. Although all the employees were convinced that the digital transformation process will make the company become superior compared with their competitors, some employees (41%) felt uncomfortable with the many changes that occurred. 56% of employees felt stressed as anxiety arose from the demands of work) but the employee loyalty remained high as almost 81% did not consider resigning from work, partly because they feel they still had good career expectations (68%).

From the results of the qualitative survey with the open question: What is expected from leadership behaviour during the change period?: 62% of employees wanted the leader to explain the reasons and background for each procedure change; 69% wanted to be encouraged/motivated by the leader that with good cooperation, future goals will be achieved; and 69% wanted to be updated on the latest developments, even though they are not directly related to the scope of their duties. For moral support, 100% of employees wanted leaders' help with the adaptation process and to treat each employee as an individual.

From the survey results it can be concluded that there is worker anxiety which results in a low assessment of the components of self-efficacy and work stress. The emergence of intention to resign, even though the number was <20% of respondents, was an indicator of job dissatisfaction. Demands for leaders to assist employees personally were also included as a factor that needs to be considered for development by the company.

### ***Conclusion & Recommendation***

In this transition process, according to Andrews (Andrews J et al 2015), companies need employees who have special expertise in their field, have a broad understanding and are able to solve problems with high complexity. Companies need employees that are engaged and fully support the process, acting as agent of change that can share optimism and positive thoughts among other employees. Engaged employees will be able to create a culture where



innovation naturally happens during the process of change and the culture is then able to bind all employee within the same goal. Workers who have a high level of engagement will work passionately and have an emotional attachment to the company. They are expected to give maximum creativity and ability so that they can ensure the company's performance and sustainability, stated Markos (Markos et al 2010). On the other hand, companies must support and provide the resources needed for the process and provide leaders that are reliable, have excellent leadership skills and have a supportive attitude to assist employees during the process.

One of the objectives of this paper was to increase the awareness of banking industry companies about the risks that they may face in connection with radical changes that occur during the transformation process. Based on the survey results, it is suggested that further research discusses the effect of other variables that may have effect during radical changes such as self-efficacy, work stress, leadership climate, employee engagement and job satisfaction. The results of this follow-up study can provide meaningful input to the digital transformation process in the Indonesian banking industry and contribute to the success of the overall process.

The limitation of this paper is that the survey was conducted at a private bank that was chosen to be a pilot digital transformation branch. Sampling data would ideally be taken from several branches from several types of banks operating in Indonesia such as government, private, Islamic and regional banks, with a larger population of sample. Considering that there are limited studies about digital transformation in developing countries, further studies are highly recommended.



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