An Analysis on the Effect of Transformational Leadership, AKHLAK as Organizational Culture, and Organizational Climate on Employee Engagement at State Owned Company

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Abstract. This study was conducted to analyze the effect of cultural and structural transformation in the company. This research was a quantitative correlational study to analyze (1) the effect of transformational leadership on employee engagement, (2) the influence of AKHLAK as an organizational culture on employee engagement (3) the influence of organizational climate on employee engagement, and (4) the influence of transformational leadership, organizational culture, and climate. Organization on employee engagement. This research used a quantitative approach and data collection was done through questionnaires to 265 respondents from a total population of 1,150 people. Data analysis was performed using a descriptive statistical analysis method and a multiple linear regression analysis method using SPSS 26. The results of statistical analysis conducted by the company showed that there was a significant sign of a negative correlation between Cultural Entropy and EES scores. The results showed that transformational leadership, organizational culture, and organizational climate each had a significant effect on employee engagement, and the three variables simultaneously had a significant effect of 62.7% on employee engagement with the regression equation resulting in $Y = 0.873 + 0.36\ X1 + 0.554\ X2 + e$.

Keywords: Employee Engagement · Organizational Climate · Organizational Culture · Transformational Leadership

1 First Section

Engagement is the feeling of each individual who has a purpose and focused energy that gives rise to personal initiative, adaptability, effort, and perseverance toward achieving organizational goals [1]. Employee engagement can lead to employee initiative and focus on working to achieve company goals.

Employee engagement creates unique relations between the employees and the element of the company. With these relations, they can focus on the targets they want to

achieve, build rock-solid teamwork, and appreciate the company for its performance achievements. It can create a greater level of commitment of employees to the company.

Since 2013, PT PLN (Persero) Unit Induk Pembangkitan Sumatera Bagian Utara as known as UIKSBU has been conducting a survey on employee engagement using several indicators. From 2013 to 2018, the average work engagement index score was 82.47%, namely at the highly engaged level. Subsequently, in 2019, the score decreased by 3.45% to 79.02% but was still in the same category. In 2020, the score declined by 1.58% but was still at the highly engaged level. These annual scores showed a downward (but not significant) trend of about 3–2% from 2019 to 2020. Then in 2021, there was an increase in the engagement score by 6% to 83.64% in the highly engaged category.

In the 2020–2021 survey, the company used 12 dimensions. Brand reputation got the highest score (83.64%) in 2020 and 86.52% in 2021 at the very engaged level, while career management, with a score of 72.46% in 2020 at the engaged level, was the lowest one. There were three dimensions with somewhat low scores, included in the engaged level. Those were career management (72.46%), work conditions (73.58%), and recognition (74.00%) in the 2020 survey. Meanwhile, in 2021, these three dimensions still placed as the lowest dimensions, but with higher scores in the highly engaged category, namely career management (81.25%), work conditions (81.98%), and recognition (81.76%).

Then, PT PLN (Persero) UIKSBU conducted a cultural survey in December 2020. The survey results showed a high cultural entropy in the company unit with a high value of 27.09%, which was categorized in a significant issue. The score decreased in 2021 to 24.33% which is still at the level of significant issues.

Cultural entropy is the amount of energy consumed by unproductive work in the workplace that can be caused by several things, such as the lack of clarity of the organizational vision. Cultural entropy is the energy used for unproductivity that presents the level of conflict, friction, and frustration in the office environment.

According to Barrett [2], a company has a healthy culture when it has a cultural entropy score of below 10%, where the three factors in cultural entropy are very insignificant and do not affect the organization's running. With the entropy score obtained, PT PLN (Persero) UIKSBU requires cultural and structural transformation and leadership coaching to improve its performance [2].

Barrett Values Center and Hewitt conducted a study of 163 organizations and companies in Australia in 2008 and found a correlation between entropy and revenue growth. Besides, they also encountered a positive correlation between entropy and staff engagement. When the cultural entropy score was low, the staff engagement score became higher, and when the cultural entropy score was high, the staff engagement score went lower [3].

The high value of cultural entropy at PT PLN (Persero) UIKSBU presumably affects employee engagement. The statistical analysis conducted by PT PLN (Persero) found a very significant negative correlation between cultural entropy and EES scores, where higher cultural entropy led to lower EES scores.

The indicator that contributes the most to cultural entropy is changes in company policies that are too frequent, thus creating confusion for employees. The company often changes its policies, following its new values, as seen in the increasing number

of procedures implemented to improve performance. Some employees who are not able keep up with the rapid changes feel confused.

Mangkunegara [4] stated that organizational culture is a system of organizational beliefs, values, and norms to guide individual behavior in overcoming problems. According to Susanto et al. [5] in Paramita [6], it is a strategic tool to achieve goals, like competitiveness in organizational success.

PT PLN (Persero) UIKSBU has implemented AKHLAK values since July 1, 2020, following the instructions of the Ministry of SOEs, so that all SOEs practice AKHLAK as corporate values. Previously, PT PLN (Persero) UIKSBU had the Best PLN culture, which later changed to I PROMISE PLN, which was implemented in 2020.

The values applied at PT PLN (Persero) UIKSBU are an organizational culture that also underlies all actions and decisions made by all company personnel. It is also in line with the cultural entropy score of PT PLN (Persero) UIKSBU that requires cultural transformation, namely the culture of moral values.

Transformational leadership explanation was first put forward by James McGregor Burns. According to Burns [7] in [8], transformational leaders must show positive moral values. Transformational leadership is explained as the mechanism of influencing adjustment in followers' beliefs, attitudes, and values towards a state where the leader's vision and organizational goals are internalized in the followers and encourage them to achieve performance beyond expectations [9].

The concept of the transformational leadership style by Burns was developed by Bernard M. Bass. Bass [10] in Hay [11] defined a transformational leader as a leader who has the ability to influence their employees in particular ways. Under transformational leadership, the employees were trusted and felt appraised, having loyalty and respect for their superiors, and, finally, motivated beyond expectation. Hadinata [12] concluded that transformational leadership can give a positive influence on employee engagement, so this effect must be a concern for the leaders of the company.

In 2021, PT PLN (Persero) UIKSBU changed its general manager twice a year. The first change occurred in March 2021, while the second one was done in October 2021. Frequent changes in leadership also affect the leadership style. Despite the recommendation that a company experiencing cultural entropy at the level of significant issues carry out a structural transformation, there are still challenges that arise for employees to continue to adapt again to the way leaders communicate their strategy in achieving the company's vision and mission.

According to Higgins [13], organizational climate is formed by a collection of employee perceptions and expectations of the prevailing system. Organizational climate is the nature of the work or psychological environment in which the workers or members perceive and consider that it can influence their attitudes and behavior towards their duties [14].

A large-scale transformation at PT PLN (Persero) on June 1, 2020, resulted in a large-scale change in its organizational structure, including in PT PLN (Persero) UIKSBU. The decision to reorganize and streamline the organization and reduce generating units became a threat to the employees of PT PLN (Persero) UIKSBU. These changes had a major effect on the company, such as employee transfers, reductions in structural positions, reductions in employees, and additional workloads.
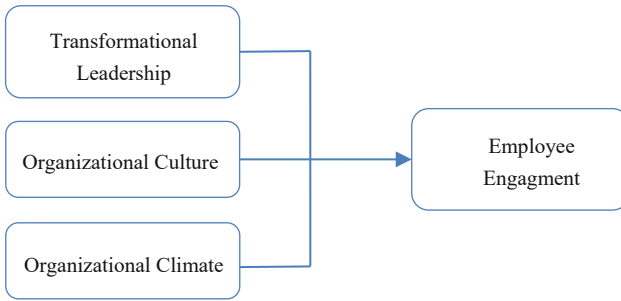
Fig. 1. Conceptual Framework.

Security and comfort perceived at work and clear goals and meaning can increase the sense of desire to work and provide the best for the company. Employees feeling insecure and uncomfortable at work feel the threat to work stability. They will feel unprotected from these threats by the company. Therefore, the organizational climate in the office environment can be one of the factors for increasing employee engagement at PT PLN (Persero) UIKSBU. This is in line with Hadinata [12] that shows a concrete relation between organizational climate and employee engagement.

According to the previous explanation, the researcher was eager to conduct research on the effect of transformational leadership, organizational culture, and organizational climate on employee engagement at PT PLN (Persero) UIKSBU.

2   Method

This research was correlational research with a quantitative approach. Data collection was done through questionnaires to 265 respondents from a total population of 1,150 people. The interview method was also used to collect supporting data from the employee's perspective. This research used a quantitative approach because the data were in the form of numbers analyzed statistically. A validity and reliability test were used to check the data collected. Descriptive statistical analysis and classical assumption tests were also used to analyze the results. The hypothesis testing methods used were multiple linear regression analysis, simultaneous hypothesis testing, and partial hypothesis testing using SPSS 26. This research was conducted by measuring the variables transformational leadership ($X1$), organizational culture ($X2$), and organizational climate ($X3$) on employee engagement (Y) as shown in Fig. 1. This research was conducted at PT PLN (Persero) UIKSBU.

3   Result and Discussion

The hypothesis in this research was tested using a method with multiple linear regression analysis including a partial t-test and a simultaneous F-test.

The analysis results showed that transformational leadership had a concrete effect on the dependent variable Y (employee engagement), where X_1 t_{count} (15.243) > t_{table} (1.96)

and p-value $(0.000) < 0.05$. The level of employee engagement was strongly influenced by transformational leadership. In other words, the better the transformational leadership showed by the leader, the better engagement showed by the employee.

For the second variable, the analysis results indicated that organizational culture significantly influenced the dependent variable Y (employee engagement), as indicated by X2 t_{count} (6.369) > t_{table} (1.96) and p-value $(0.000) < 0.05$. It means that the better the organizational culture, the better the employee engagement.

The third variable analysis results showed that organizational climate significantly influenced the dependent variable Y (employee engagement), as indicated by X3 t_{count} of (5.436) > t_{table} (2.00) and p-value $(0.000) < 0.05$. The better the supervision, the better the employee engagement.

Measurements were made to determine whether the all independent variables X1 (transformational leadership), X2 (organizational culture), and X3 (organizational climate) had a significant influence or not on the dependent variable Y (employee engagement).

This study found that $F_{count} = 149,169$ with a significance value (p-value) $= 0.000$. When compared with $F_{table} = 2.44$, it can be seen that F_{count} (149.169) > F_{table} (2.44) and sig-p $(0.000) < 0.05$, so it can be established that the three independent variables X1 (leadership) transformational), X2 (organizational culture), and X3 (organizational climate) had a significant influence on the dependent variable (employee engagement).

The adjusted r_{square} value was 0.627, meaning that the influence of the independent variable on the dependent variable Y (employee engagement) reached $0.627 \times 100\%$ $= 62.7\%$. It means that 62.7% of the employee engagement can be determined by the leadership, transformational, organizational culture, and work environment variables, while the rest (37.3%) is by other factors not tested in this study.

Based on the regression equation arranged according to the calculated coefficient values, the researcher concluded that:

1. Every improvement in leadership quality can increase employee engagement 2.7 times.
2. Every increase in organizational culture can increase employee engagement by 2.4 times.
3. Every improvement in organizational climate can increase employee engagement by 2.5 times.

3.1 Discussion

The Effect of Transformational Leadership on Employee Engagement
The better the transformational leadership showed by the leader, the better engagement showed by the employee. These results were in line with Suwatno's research [15] on the Effect of Transformational Leadership and Internal Communication on Employee engagement, which proved that transformational leadership and internal communication simultaneously and partially positively affected the score of employee engagement.

Employee engagement can be defined as a sense of enthusiasm, devotion, and appreciation in doing work [16]. Employees will carry out their routine activities with pride and joy in their work environment.

The factors that influence employee engagement at work are transformational leadership of leaders and organizational justice [17, 18]. The success in achieving higher performance depends on how the leader effectively manages the resources owned by the organization. A transformational leader is a figure that can increase the level of maturity of employees related to achievement, self-actualization, and well-being of the organization and the environment [19]. Transformational leadership is a vital requirement to improve employees' engagement.

The Influence of Organizational Culture on Employee Engagement

A good organizational culture can initiate good employee engagement. These results were in line with Tabun's [20] research, where organizational culture showed a positive and significant effect on employee engagement at BAAK employees at XYZ University in Jakarta, which proved a significant influence between organizational culture on employee engagement with the value of t_{count} (5.035) > t_{table} (2.034) and the significance value of 0.000 < 0.05, thus the hypothesis was accepted. The better the organizational culture, the higher the employee engagement, and the worse the organizational culture, the lower the employee engagement.

Leaders can influence their subordinates through organizational culture because the behavior of all elements of the company is strongly influenced by organizational culture. A good relationship between leaders and their employees positively influences the company or organization because there is a mutually supportive commitment between organizational culture and leadership in affecting employees' work results. Robbins [21] concluded that organizational culture is a system and habits adopted by members of an organization or company that distinguishes the organization from other organizations.

The Effect of Organizational Climate on Employee Engagement

The better the supervision, the better the employee engagement. The results were in line with Sukmawati's [22] research on the effect of work environment on employee engagement through job satisfaction as an intervening variable (case study at Bank Jatim Syariah Malang), proving that a good work environment significantly increased employee work engagement.

The work environment was a factor used to solve employee engagement problems in this study because some literature stated that it is part of the factors that can encourage increased employee engagement [23]. Generally, there are two types of work environments; physical and social work environments. The physical work environment is all physical conditions around the office that can fully or partially affect employees. While social work environments are related to work relationships, with bosses, coworkers, and subordinates [24].

Employee engagement in an organization is strongly influenced by the environmental conditions where they work. A poor work condition can take more energy and time, which can be deemed not efficient and productive for the work system. Therefore, the working environment is one of the factors that disrupted the company's effort to achieve its goals.

The Effect of Transformational Leadership, Organizational Culture, and Organizational Climate on Employee Engagement

Considering the urge of having a high employee engagement score, PT PLN (Persero) UIKSBU should realize the importance of making employees feel engaged in the organization and making employees passionate about the work they do [25]. The ability of the organization to control and maintain employee engagement is closely related to the ability of employees to achieve high levels of performance. Therefore, employee engagement is commonly weighed as the main factor in grading the power of a company.

Based on the results, PT PLN (Persero) UIKSBU should also maintain the transformational leadership role of the leaders in building communication with their subordinates. Internalization of organizational culture must also be carried out with more attractive strategies and frequently conducted so that it becomes the basis for every employee's behavior. Meanwhile, comfort in working as seen from the organizational climate is also one of the factors that should not be forgotten to be maintained by the company and the leaders.

The organizational climate can be reflected from attention to the work system, work design, working conditions, and the ways in which employees are treated. These factors can create a change in the physical and psychological conditions of employees which later will affect employee engagement with the company [26].

4   Conclusion

From this research, it can be concluded that:

1. Transformational leadership partially had a significant influence on employee engagement, as indicated by X1 t_{count} (15.243) > ttable (1.96) and p-value (0.000) < 0.05.
2. Organizational culture partially had a significant influence on employee engagement, as indicated by X2 t_{count} (6.369) > t_{table} (1.96) and p-value (0.000) < 0.05.
3. Organizational climate partially had a significant influence on employee engagement, as indicated by X2 t_{count} (6.892) > t_{table} (1.96) and p-value (0.000) < 0.05.
4. Transformational leadership, organizational culture, and work environment simultaneously had a significant influence on employee engagement, as indicated by F_{count} (149.169) > F_{table} (2.44) and sig-p (0.000) < 0.05.

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