Prior to Corporate Transformation Readiness: A Case of Digital Capability, Employee Engagement, and Employee Productivity

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Abstract

The aim of this research is to explain factors affecting corporate transformation readiness, whereas digital capability, employee engagement and employee productivity. Literature in this study will focus more on readiness to corporate transformation, digital capability, employee engagement and employee productivity. Method of this research is quantitative, where this research will measure model given in this paper with partial least square. Results of this study shows digital capability and employee engagement will affect employee productivity, and corporate transformation. Therefore prior to corporate transformation readiness, companies should aware of their digital capability, employee engagement and employee productivity.

Keywords

Corporate, Transformation, Digital, Capability, Employee Engagement, Employee, Productivity

1. Introduction

Even as technology astounds us, it is also becoming more competitive in its mesmerizing creativity. Technology and development are relevant to people from all walks of life, and their rising relevance in our everyday lives has made it necessary for the realms of business and industry to evolve in tandem with technological advancements. To achieve success and relevance, every organization or corporation must adapt digitally, and they must do so on an ongoing basis to stay ahead of the competition. The study of organizational transformation is considered one of the most significant studies about the sustainability of a business. The studies that several researchers have conducted show that organizational transformation is considered very important because it can generate a competitive advantage. Porras and Silvers (1991) state that organizational transformation can occur when a change in the business environment is considered very relevant by the business. Thus, when a business is stimulated by its surroundings to make changes, it will directly impact business continuity. Essentially, corporate transformation is the process of radically altering how all people in a company perceive, think, and conduct to serve better a broader range of requirements from a more significant number of critical stakeholders over a longer length of time.

An organization that plans change should ideally pay attention to its supporting components. According to Porras and Silvers (1991), there are four components in change that have a relationship with each other, namely 1) intervening change, (2) then, related to variables that support organizational goals, (3) seeing the individual as an essential part of the organization's goals. Organization and, therefore, individual behavior in the workplace support change efforts, and finally (4) looks at the impact of change on the organization (Porras and Silvers, 1991). Mckinsey conducted a study in 2009, asking CEOs from throughout the globe about their recent organizational transformation experiences. These modifications served a variety of purposes. Some were offensive in nature, such as going from excellent to exceptional performance or geographical expansion; others were defensive, such as cost reduction or crisis management. Some, for example, merger integration and privatization readiness—did not fit well into either group. Slightly more than a third of all respondents said that their organizations were excellent or effective at achieving their objectives (Isern et al, 2009).

In previous studies, the trigger for the emergence of organizational transformation decisions is believed by several researchers as follows: a crisis (Bate, 1994; Levy, 1986), although the crisis itself occurs for several reasons, including the error of the managerial position in terms of viewing the external and internal situation (Chaffee, 1985; Pettigrew et al., 1992). This study aims to raise the trigger for the emergence of organizational transformation decisions that depart from the internal business situation.

Employee engagement is a description of the condition that people have, a positive and satisfying mental state related to one's work which is defined by enthusiasm (a high level of excitement for one's work), devotion (feelings of purpose, enthusiasm, inspiration, pride, and challenge), and absorption. (a level of deep interest in one's work) (the individual's total concentration at work makes time pass quickly without him noticing). In addition, work engagement is connected to the personal energy that employees bring to their work, according to research (Bakker, Demerouti, & Sanz-Vergel, 2014). Saxena and Srivastava (2015) mention that employee engagement is one part of the challenge to achieve company goals.

The company tries to encourage employee productivity, among others, by encouraging employees to have skills related to the latest technology. Companies digitize products, services, or business functions (Khin and Ho, 2018). Digitization is related to integrating information and communication technology in all areas of life which will affect business (Kane et al. 2015).

1.1 Objectives
The aim of the research is to determine the influence of digital capabilities and employee engagement on corporate transformation readiness, using employee productivity as a proxy for employee productivity.

2. Literature Review
2.1 Corporate Transformation
Transformation refers to "areas where new employee behaviors are required due to external and internal environmental forces" in behavioral terms (Burke & Litwin, 1992). *Corporate Transformation* is a phenomenon that affects the whole company and "involves fundamental alterations in strategy and revolutionary changes across the organization", according to Tushman and Romanelli (1985), there is also a distinction between evolutionary and revolutionary Transformation in some literature. The size of the shift, which is typically defined to show incremental shift (or change) vs. quantum shift (or corporate Transformation), has been identified as the most important distinguishing feature between the two.

2.2 Employee Productivity
Productivity is measured through the amount of work completed by an employee in a given amount of time. Typically, the productivity of a specific work will be evaluated in comparison to the productivity of the typical employee doing comparable tasks. Enhancing staff productivity is a top priority in certain firms, and achieving this aim is critical. The rise in staff productivity will have several advantages for both the firm and the individuals who are part of the increase in productivity. More lucrative economic growth, profitability, and improved social advancement are all possible outcomes of increased productivity (Sharma & Sharma, 2014). Furthermore, increased productivity has been shown to increase an organization's competitive advantage by reducing costs and improving the output quality of the firm (Hill et al., 2014). Productivity of workers has emerged as a critical business objective since one of the essential variables determining an organization's performance is the level of productivity of its people (Sharma & Sharma, 2014). Employee productivity has increased significantly as a result of all of these advantages. To ensure the long-term viability of the organization and its long-term success, it must look to its predecessors for guidance. Several studies assess productivity using a variety of methodologies, making it difficult to compare the findings. In general, there is no reliable and conventional method of determining productivity.

2.3 Employee Engagement
In today's challenging business climate, employee engagement is a critical organizational concern that must be managed with extraordinary care and attention by organizational management (Saxena & Srivastava, 2015). According to Markos and Sridevi (2010), employees who are disengaged from their employment are more likely to squander time on low-priority tasks and fail to display a complete commitment to fulfilling given obligations on time. Other research, however, has shown that persons who are not engrossed in their job have higher levels

of work engagement and emotional productivity (Abraham, 2012; Shuck et al. 2011). According to Harpaz and Snir (2014), employee engagement is described as a high degree of involvement in one's job expressed via feelings of pleasure, challenge, and significance. Previous research has demonstrated that a high degree of job engagement, which comprises vitality, dedication, and absorption components, has a significant favorable influence on employee productivity (Hanaysha, 2015). According to various research, employee engagement is a construct made up of cognitive, emotional, and behavioral characteristics linked to employee performance (Shuck et al., 2011). It demonstrates employees' devotion and engagement in their job, which is intended to boost the organization's overall performance.

2.4 Digital Capability

Individual elements such as digital orientation and organizational factors might impact workers' digital ability. Individual aspects such as digital orientation and organizational ones include giving access to information technology training, managerial support, and digital infrastructure (Aboelmaged & Subbaugh, 2012). (Aboelmaged & Subbaugh, 2012). Today all organizations depend on digital technology to make their job more straightforward, which is anticipated to continue. Every firm operation demands digital transformation, regardless of size or sector. Employee productivity is impacted by individual employees' newly revealed digital orientation, while earlier research on digital orientation has been undertaken at the organizational level, even more, in the context of digital technology, digital orientation is an extension of a more specialized technological orientation (Khin & Ho, 2018).

2.5 Hypothesis Development

In this study, we suggest four hypotheses, which are as follows:

Hypothesis 1: Digital capability affect employee productivity positively
Hypothesis 2: Digital capability affect corporate transformation readiness positively
Hypothesis 3: Employee engagement affect employee productivity positively
Hypothesis 4: Employee engagement affect corporate transformation readiness positively
Hypothesis 5: Employee productivity affect corporate transformation readiness positively
Hypothesis 6: Employee productivity mediates digital capability to corporate transformation readiness
Hypothesis 7: Employee productivity mediates employee engagement to corporate transformation

As a result, our research model is as follows (Figure 1):

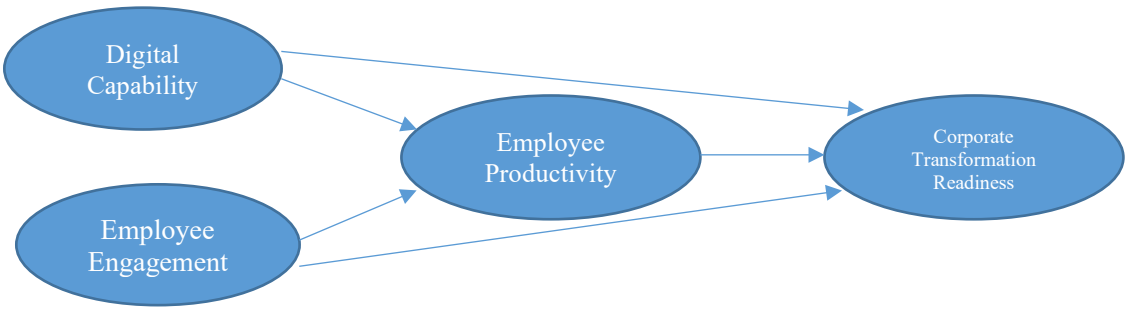

Figure 1. Research Model

3. Methods

The setting used in this study is not made up, and it is done in a lab (natural place). People do very little work to do a correlational study. For example, they pick the correct variables, collect the correct data, and analyze it to get valuable results. The event that is being investigated does not happen in an artificial setting. Sekaran and Bougie (2016) say that non-contrived settings are research done in natural settings where things happen the way they do in that environment.

Research populations are defined as the entire set of individuals, events, and other interests (also known as "items of interest") that the researcher wants to explore (Sekaran & Bougie, 2016). Therefore, the population is employees of commercial banks in Manado who worked in various positions resulting in 600 employees. A permanent employee with a tenure of more than two years must be considered, as must be the individual's usage of information technology in his or her job.

When a research sample is selected, it is a subset of the overall population chosen for study to derive findings that can be applied to the entire research population (Sekaran & Bougie, 2016). Probability sampling and non-probability sampling are the two sorts of research sampling procedures that may be used (Sekaran & Bougie, 2016). The probability sampling strategy was utilized in this research to collect the data. Every member of the population who fits the standards will be eligible to be picked as a sample if the population is large enough. Because the whole population that will be the subject of the study are permanent bank workers who have been with the company for more than two years, a simple random selection approach may be used. We utilize Isaac and Michael's formula to determine the sample size for this study since the number of bank workers in the Manado region has not been determined with certainty. According to Issac and Michael's table, the sample size is 349 workers from 600 employees that work in commercial banks in Manado, with an error rate of 5 percent.

The researcher used a questionnaire about employee engagement, digital capability, employee productivity, and corporate transformation readiness in this study. The questionnaire uses a five-point Likert scale method for respondents to answer the questions on the questionnaire, with the first being Strongly Disagree, which is equal to a value of 1, the second being Disagree, which is equal to a value of 2, the third being Neutral, which is equal to a value of 3, the fourth being Agree with a score of 4, and the fifth being Strongly Agree with a score of 5. The last step in employing the questionnaire approach is for the researcher to express gratitude and provide gifts to those who participated in the first several questions. As a result, due to the Covid-19 pandemic, the questionnaire method is the most convenient method of collecting research data. Because researchers do not need to contact other people directly, they do not need to meet with respondents one by one; instead, they provide respondents with a link to a questionnaire.

To validate the study model, the researcher utilized PLS-SEM, and to verify the model's fit, the researcher evaluated both the outer and inner models. The researcher analyzed the outer model in the first phase by examining the reflective model (composite reliability and average variance were retrieved and Fornell-larcker criteria). Next, the researcher assesses the inner model by calculating R2, determining the magnitude of the influence by calculating f2, and ultimately estimating the path coefficient.

4. Data Collection

The survey was conducted from January 10, 2022, to February 9, 2022, and a total of 207 replies were received from the service sector. The majority of respondents were between the ages of 31 and 40 years old, had worked in the service business for 5-10 years, and had a recent education. bachelor. More specifically, based on the incoming data, this study will subsequently represent the current condition that exists inside the group, which is detailed in further detail below table 1:

Table 1. Demographic Profile

Profile	Classification	Frequency
Age	20-30 Years	55
	31-40 Years	139
	41-55 Years	13
Education Level	Diploma	25
	Bachelor	161
	Postgraduate	21
Working experience	< 5 Years	44
	5 – 10 years	125
	10-15 years	30
	>15 Years	8

Then, after gaining an overview of the respondent's profile, the researcher ran a test utilizing SmartPLS, and the first phase of testing was to look at the outside model, namely the reflective model.

5. Results and Discussion

Tabel 2. Construct Reliability and Validity

	Cronbach's Alpha	**rho_A**	**Composite Reliability (CR)**	**Average Variance Extracted (AVE)**
Corporate Transformation Readiness	0,906	0,908	0,930	0,728
Digital Capability	0,918	0,922	0,939	0,755
Employee Engagement	0,960	0,963	0,966	0,758
Employee Productivity	0,921	0,928	0,938	0,718

From the data obtained here (Table 2), it can be inferred that all variables that match the requirements of the reflective model are claimed to be satisfied, where ideally CR > 0.7; then the AVE is preferably between 0-1; Cronbach alpha ideally > 0.7; and rho A ideally > 0.7.

However, table 2. above is derived after reviewing the outer loading, where there are a number of things that cannot be included, including those in the corporate transformation readiness construct, including CTR1, CTR4, CTR5, CTR6, CTR9. After construct reliability and validity are regarded met, the researcher next continues to examine discriminant validity, which is more precisely Fornell-Larcker, as follows (Table 3)

Table 3. Fornell-Larcker Criterion

	Corporate Transformation Readiness	Digital Capability	Employee Engagement	Employee Productivity
Corporate Transformation Readiness	0,853			
Digital Capability	0,848	0,869		
Employee Engagement	0,805	0,814	0,871	
Employee Productivity	0,594	0,648	0,685	0,847

From the results above, it is known that the discriminant validity criteria that require the Square Root of AVE should be higher than the correlation of the construct with others are met, and therefore we can proceed to the next checking step, namely Heretrotrait-Monotrait which ideally is between 0 and 1 , based on table 4., under all constructs that meet these criteria.

Table 4. Heterotrait-Monotrait Ratio (HTMT)

	Corporate Transformation Readiness	Digital Capability	Employee Engagement	Employee Productivity
Corporate Transformation Readiness				

Digital Capability	0,925			
Employee Engagement	0,858	0,865		
Employee Productivity	0,645	0,704	0,729	

The following (figure 2) is an illustration of the outer model.

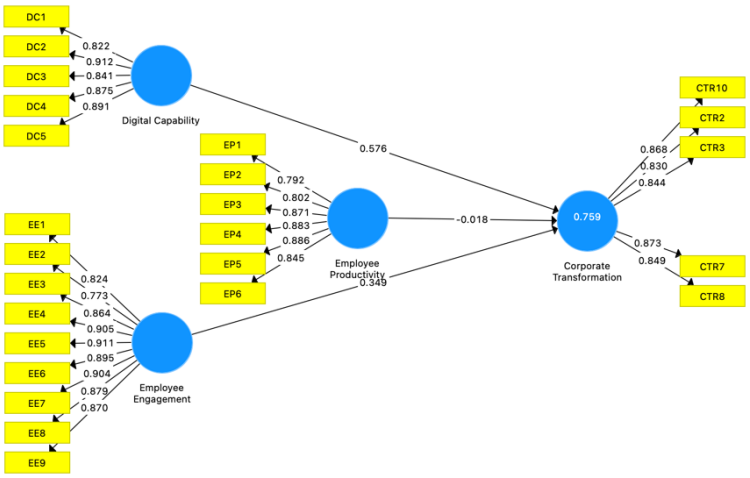

Figure 2. Outer Model

After finishing with the outer model, the next step which is also the last step is checking the inner model. The first is to look at the determination coefficient for the inner model, which in this case is R2 (table 5), ideally the value obtained is between 0-1, where the closer to 1 indicates the magnitude of the effect. From the results obtained indicate that the value of the determination coefficient of this study is close to number one or in other words the magnitude of the large effect on corporate transformation readiness.

Table 5. Coefficient Determination (R^2)

	R Square	R Square Adjusted
Corporate Transformation Readiness	0,759	0,755

After the coefficient of determination, the next step is to look at the value of f2 whose purpose is to measure the size of the effect and the strength of the relationship between the variables and the total, explained, error variances (table 6).

Table 6. The Magnitude of the Influence (f^2)

	Corporate Transformation Readiness	Digital Capability	Employee Engagement	Employee Productivity
Corporate Transformation Readiness				
Digital Capability	0,441			
Employee Engagement	0,149			
Employee Productivity	0,001			

Based on the above results, compared to the f2 criteria as described in the previous section, the digital capability construct provides a large effect size for corporate transformation readiness, while employee engagement provides a small effect size for corporate transformation readiness, and finally employee productivity does not provide an effect size for corporate transformation readiness (Table 7).

Table 7. Estimation of Path Coefficients (Mean, STDEV, T-Values, P-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Digital Capability -> Employee Productivity	0,266	0,263	0,117	2,279	0,023
Digital Capability -> Corporate Transformation	0,578	0,581	0,090	6,397	0,000
Employee Engagement -> Employee Productivity	0,471	0,475	0,112	4,222	0,000
Employee Engagement -> Corporate Transformation	0,348	0,346	0,085	4,097	0,000
Employee Productivity -> Corporate Transformation	-0,021	-0,022	0,061	0,340	0,734
Digital Capability -> Employee Productivity -> Corporate Transformation	-0,006	-0,006	0,018	0,308	0,758
Employee Engagement -> Employee Productivity -> Corporate Transformation	-0,010	-0,010	0,030	0,326	0,745

Next below (Figure 3) is an illustration of the inner model, based on bootstrapping (N=5000).

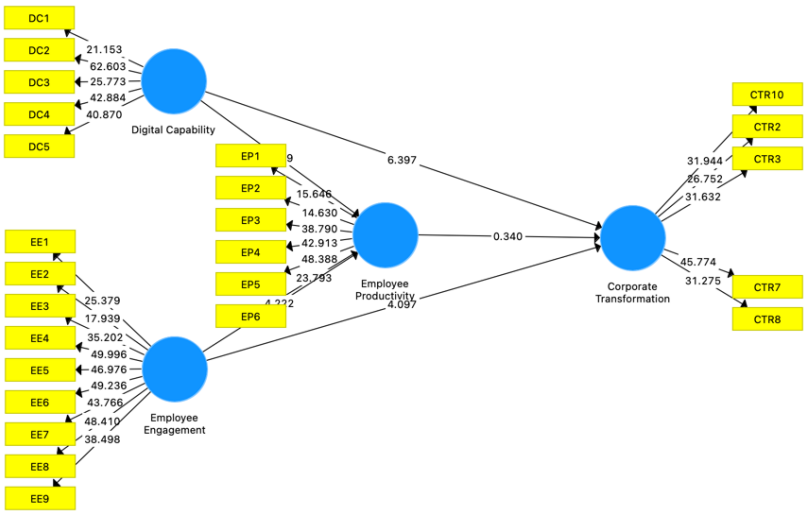

Figure 3. Bootstraping

The results obtained above show that most of the proposed hypotheses are proven, including H1, H2, H3, and H4. However, even though H5, H6, and H7 are not proven, it does not mean that they are not interesting to be discussed in this study. First of all, it will be discussed first for the proven hypothesis. Digital capability is proven to affect employee productivity when companies 1) show their effort to adopt technology in order to support digitalization support, 2) identify new technology to support business, 3) put attention to digital Transformation, shows effort to become a pioneer in technology, and 4) support employees to develop new

technology in order to support business, this four identifiable effort will promote 1) several job completions, 2) quality of work, 3) quality work will contribute to self, 4) timely completion of work, 5) ability to complete work on time and the other hand, digital capability also affects corporate transformation readiness.

Among the respondents, most of whom are between the ages of 31 and 40, have worked between 5 to 10 years, and corporate transformation readiness is impacted by digital capacity and employee engagement; this is intriguing and maybe addressed more below. According to the findings of the previous test, employee productivity is impacted by digital capabilities and employee engagement. Employee productivity is affected by the following factors: the number of job completions, the quality of craftsmanship, the contribution of quality work, the timely completion of work, and the capacity to finish work on time.

Separately, digital capabilities and employee engagement impact corporate transformation preparedness. Self-efficacy for change perceived organizational support, trust in peers, involvement, flexible policies, logistical and system support, confidence in organizational leadership, and preparedness for change are all aspects of corporate transformation readiness. However, for respondents, staff productivity cannot be seen as a bridge between digital capabilities and employee engagement.

Within behavioral science, Transformation refers to "areas where new employee behaviors are needed as a consequence of external and internal environmental factors" (Burke & Lituin, 1992). In the business world, *corporate Transformation* is a phenomenon that impacts the whole organization and "involves fundamental adjustments in strategy and revolutionary changes across the organization" (Stace & Dumpty, 1996; Ticky & Devanna, 1986). The contrast between evolutionary and revolutionary change is also made in parts of the literature (Tushman and Romanelli, 1994). The scale of the shift, which is often classified as incremental shift (or change) versus quantum shift (or corporate Transformation), has been found as the most critical differentiating element between the two types of shift, according to the research (Beugelsdijk, Siangen, and Herpen, van, 2002). Moreover, individual characteristics, such as digital orientation and organizational circumstances, may influence employees' digital competence. The importance of individual characteristics such as digital orientation and the need to provide access to information technology training, managerial assistance, and digital infrastructure are also important considerations (Aboelmaged & Subbaugh, 2012). Aboelmaged and Subbaugh (2012) developed a formalized formalized formalized (Aboelmaged & Subbaugh, 2012). Today, all businesses rely on digital technology to make their jobs easier, and it is expected that this will continue in the future. Regardless of its size or industry, every business operation needs digital Transformation. In contrast to a past study on digital orientation at the organizational level, which was conducted at the individual level, individual workers' newly disclosed digital orientation influences employee productivity (Khin & Ho, 2018). (2018); (Khin & Ho, 2018). A more specialized technical orientation is extended to include digital technology in the framework of digital technology orientation in digital technology (Khin & Ho, 2018).

It is accurate; however, employees disengaged with their jobs are more likely to waste time on low-priority work and demonstrate a lack of total dedication to meeting their contractual responsibilities on time, and Markos and Sridevi (2010) reported these findings. On the other hand, various studies have shown that those who are not entirely absorbed in their work have better levels of work engagement and emotional productivity (Abraham, 2012 Shuck, et al. 2011). Described by Harpaz and Snir (2014) as a high level of interest in one's employment manifested via emotions of joy, challenge, and importance, employee engagement may be defined as follows: The previous study has shown that a high level of work engagement, which is comprised of components such as vitality, devotion, and absorption, has a considerable beneficial impact on the productivity of employees (Hanaysha, 2015). According to numerous studies, employee engagement is a construct made up of cognitive, emotional, and behavioral traits associated with the role of employee performance (Shuck et al., 2011). It indicates workers' commitment to and interest in their jobs, and it is designed to improve the firm's overall performance.

In the context of behavioral science, Transformation refers to "an area in which employee behavior is something that is influenced by external and internal environmental factors" (Burke & Lituin, 1992). In the business world, *corporate Transformation* is defined as a phenomenon that impacts the entire organization and "involves fundamental adjustments in strategy and revolutionary change throughout the organization" (Stace & Dumpty, 1996; Ticky & Devanna, 1986). There is a difference between an evolutionary and revolutionary change in the literature that seeks to promote change. Scale shifts, which are often classified as incremental shifts (or changes)

versus quantum shifts (or firm transformations), are considered the distinguishing and most critical element between the two types of shifts (Beugelsdijk, Siangen, and Herpen, van, 2002). Every business, regardless of size or industry, needs digital Transformation. When a shift occurs within the organization, individual readiness is required so that individual characteristics, such as digital orientation, are considered relevant to Transformation and within the organization, can affect employees' digital competence. The importance of individual characteristics, such as digital orientation, will encourage the need to provide access to information technology training, managerial assistance, and digital infrastructure (Aboelmaged & Subbaugh, 2012). As businesses seek to rely on digital technology to simplify existing work, there is hope that digital technology will also bring future success. In contrast to previous studies on digital orientation at the organizational level conducted at the individual level, the digital orientation of workers influences employee productivity (Khin & Ho, 2018).

On the other hand, employees must try to be tied to work to have priorities and be dedicated (Markos and Sridevi, 2010). On the other hand, various studies show that those who are fully absorbed in their work have better levels of job involvement and emotional productivity (Abraham, 2012 Shuck, et al. 2011). Described by Harpaz and Snir (2014) as a high level of interest in one's work which is manifested through the emotions of joy, challenge, and importance, employee engagement can be defined as follows: Previous studies have shown that a high level of job involvement, which consists of components such as vitality, devotion, and absorption, have a considerable beneficial impact on employee productivity (Hanaysha, 2015). According to many studies, employee engagement is a construct consisting of cognitive, emotional, and behavioral traits related to employee role performance (Shuck et al., 2011). It shows the commitment and interest of workers towards their work, and it is designed to improve the company's overall performance.

6. Conclusion

This study indicates that in the banking environment, there are the following phenomena: digital capability affects employee productivity positively, digital capability affects corporate transformation readiness positively, employee engagement affects employee productivity positively, and employee engagement affects corporate transformation readiness positively. This study certainly needs to be strengthened by confirmation of secondary data that can show that employee productivity among employees in banking is indeed affected by employee engagement; this can be obtained through confirmation to employees who have characteristics between 31 and 40 years of age and have worked between 5 years up to 10 years.

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Biography

Anita Maharani, currently as one of faculty member at Binus Business School. She is presently concentrating her interest in the field of organizational behavior. Her published research have brought to light a variety of challenges that exist in the field of organizational behavior.

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APPENDIX

Table 1. Operationalization

Variables	Definitions	Item	Scale
Corporate Transformation Readiness	Phenomena that affects the whole company and "involves fundamental alterations in strategy as well as revolutionary changes across the organization	Self efficacy for change	1 (completely disagree) – 5 (completely agree)
		Perceived organizational support	
		Trust in peers	
		Participation	
		Flexible policies	
		Logistics and systems support	
		Trust in organizational leadership	
		Readiness for change	

Digital Capability	Individual aspects such as digital orientation and organizational ones such as the need of giving access to information technology training, managerial support, and digital infrastructure	Effort to adopt technology support digitalization process	1 (completely disagree) – 5 (completely agree)
		Identifying new technology to support business	
		Attention to digital transformation	
		Effort to become pioneer in technology	
		Support employees to develop new technology in order to support business	
Employee Engagement	a high degree of involvement in one's job expressed via the feelings of pleasure, challenge, and significance. Previous research has demonstrated that a high degree of job engagement, which comprises components of vitality, dedication, and absorption, has a significant positive influence on employee productivity	Encourage employees in completing work in office	1 (completely disagree) – 5 (completely agree)
		Encourage employees to devote energy while working	
		Encourage employees to not give up in completing their task	
		Encourage employees to carry out their work task	
		Provides encouragement to its employees to always have energy when doing their work tasks	
		The company encourages its employees to feel always interested in doing their work assignments	
		The company seeks to support its employees to focus on carrying out their work duties	
		The company supports employees to really feel alive to work when in an office environment	
		The company supports me to always think that the work done is important	
Employee Productivity	the amount of work completed by an employee in a given amount of time	Number of job completions	1 (completely disagree) – 5 (completely agree)
		Quality of workmanship	
		Quality work will contribute to self	
		Timely completion of work	
		Ability to complete work on time	