

Transformational Leadership and Employee Performance in the Digital Age: The Mediating Role of Organizational Culture

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Abstract

This study examines the mediating role of organizational culture in the relationship between transformational leadership and employee performance within digital-centric workplaces. Despite extensive research on leadership styles, gaps persist in understanding how digital transformation reshapes these dynamics, particularly in emerging economies. The primary objectives are to (1) analyze the direct impact of transformational leadership on employee performance, (2) assess the mediating effect of organizational culture, and (3) explore implications for leadership strategies in digitally evolving organizations. Using a quantitative approach, data were collected via surveys from 312 employees in Indonesian tech firms. Structural Equation Modeling (SEM) revealed that transformational leadership significantly enhances employee performance ($\beta = 0.58$, $p < 0.01$), with organizational culture mediating 35% of this relationship. These findings contrast with prior studies that emphasize direct leadership effects, highlighting the critical role of adaptive cultures in digital transitions. The results suggest that organizations must cultivate culture alignment alongside leadership development to optimize performance. This research contributes to leadership theory by integrating digital context and mediation mechanisms, offering practical strategies for managers navigating technological disruptions.

Keyword: Transformational leadership, Employee performance, Organizational culture, Digital transformation, Mediation analysis

INTRODUCTION

The digital age has redefined organizational dynamics, necessitating leadership approaches that foster adaptability and innovation (Shafariah et al., 2024). While transformational leadership is widely recognized for enhancing employee performance, existing literature inadequately addresses its interplay with organizational culture in digitally transforming environments (Saefullah, Noor, et al., 2025). Prior studies (Udin, 2023) focus on leadership's direct effects, overlooking cultural mediation—a critical gap given that digital adoption often requires cultural shifts.

This research addresses two key gaps. First, it investigates how organizational culture mediates leadership outcomes in tech-driven sectors, a context underexplored in emerging markets. Second, it introduces the role of digital maturity as a boundary condition, offering novel insights into contingency factors. The objectives are threefold: (1) to evaluate the direct relationship between transformational leadership and performance, (2) to test organizational culture's mediating role, and (3) to provide actionable recommendations for aligning leadership and culture in digital transitions. By bridging these gaps, this study advances leadership theory and responds to calls for context-specific research in management (Theng et al., 2021).

Digital transformation transcends technological adoption; it necessitates a fundamental reconfiguration of organizational values, norms, and behaviors (Agustina et al., 2023). As firms integrate artificial intelligence, cloud computing, and agile methodologies, employees often face dissonance between legacy practices and emerging digital workflows. For instance, a study by (Kaur Bagga et al., 2023) on Fortune 500 companies revealed that 70% of digital initiatives fail due to cultural resistance, underscoring the centrality of culture in technological transitions. Transformational leaders, who inspire vision and intellectual stimulation, are uniquely positioned to mitigate such resistance by fostering a culture of openness and learning (Jayaun et al., 2024). However, the mechanisms through which leaders translate vision into cultural alignment remain underexplored, particularly in contexts where hierarchical traditions clash with digital-era demands for decentralization (Kane et al., 2021).

This cultural mediation is especially critical in emerging markets like Indonesia, where rapid digitalization coexists with collectivist organizational norms. A 2023 report by McKinsey & Company highlighted that Indonesian tech firms with strong collaborative cultures reported 40% higher employee productivity post-digital adoption compared to those with rigid hierarchies. Yet, existing leadership

frameworks, predominantly validated in Western contexts, often neglect such cultural nuances. By examining how transformational leadership cultivates cultures that prioritize innovation and psychological safety, this study addresses the call for localized models of leadership in global management research (Korejan & Shahbazi, 2016).

Digital maturity defined as an organization’s capacity to leverage technology strategically serves as a critical boundary condition in the leadership-culture-performance nexus. Organizations at varying stages of digital maturity exhibit distinct cultural dynamics (Rojak, 2024). For example, highly mature firms, such as Indonesia’s leading e-commerce platforms, often operate within cultures that normalize experimentation and data-driven decision-making. In such environments, transformational leadership amplifies performance by reinforcing existing agile values (Alqatawenh, 2018). Conversely, in firms with low digital maturity, leaders must first dismantle bureaucratic inertia to instill a digital-ready culture, a process requiring prolonged trust-building and resource allocation .

Prior research has largely treated digital maturity as a static variable rather than a dynamic moderator. This study advances the discourse by conceptualizing digital maturity as a continuum that interacts with leadership behaviors. Preliminary findings from pilot interviews with Indonesian tech managers suggest that leaders in mid-maturity firms face unique challenges, such as balancing innovation with operational stability—a tension absent in both early and advanced stages. By integrating digital maturity into the analytical framework, this research offers granular insights into how leadership strategies must evolve alongside technological capabilities, thereby addressing a critical oversight in current literature (Saefullah, Hidayatullah, et al., 2025).

METHOD

A cross-sectional survey design was employed, targeting employees in Indonesian technology firms undergoing digital transformation. Data collection was conducted from **February to April 2023**, preceded by a pilot study in January 2023 to refine the survey instruments. The pilot involved 30 participants from non-sampled firms to assess clarity, reliability, and validity. Stratified random sampling was used to select 312 employees from four major tech hubs in Indonesia (Jakarta, Bandung, Surabaya, and Bali). Eligibility criteria included: (1) full-time employment, (2) involvement in digital transformation projects, and (3) tenure of at least six months. The sample comprised firms of varying sizes:

- **Small firms** (50–200 employees): 28% of the sample
- **Medium firms** (201–500 employees): 45% of the sample
- **Large firms** (>500 employees): 27% of the sample

The demographic characteristics of participants are summarized in Table 1.

Table 1: Demographic Profile of Respondents (N = 312)

Category	Frequency	Percentage (%)
Gender		
Male	178	57.1
Female	134	42.9
Age Group		
20–30 years	142	45.5
31–40 years	116	37.2
41–50 years	44	14.1
>50 years	10	3.2
Position		

Category	Frequency	Percentage (%)
Entry-Level	124	39.7
Middle Management	138	44.2
Senior Management	50	16.1
Tenure		
6 months – 2 years	98	31.4
2–5 years	160	51.3
>5 years	54	17.3

Instruments and Measures

1. **Transformational Leadership:** Measured using the 20-item MLQ-5X (Bass & Avolio, 1995) on a 5-point Likert scale ($\alpha = 0.92$).
2. **Organizational Culture:** Assessed via the OCAI (Cameron & Quinn, 2011), focusing on adaptability and innovation subscales ($\alpha = 0.87$).
3. **Employee Performance:** A 7-item scale adapted from Koopmans et al. (2014), rated from 1 (poor) to 5 (excellent) ($\alpha = 0.89$).
4. **Digital Maturity:** A 5-point self-assessment tool evaluated technological integration, process agility, and data utilization ($\alpha = 0.85$).

Structural Equation Modeling (SEM) with AMOS 28.0 tested the hypothesized relationships. Mediation was analyzed using bootstrapping (5,000 resamples, 95% CI). Model fit indices included CFI (0.95), TLI (0.93), and RMSEA (0.06), indicating good fit. Control variables (firm size, tenure, digital maturity) were incorporated to mitigate confounding effects. Ethical approval was obtained from the Institutional Review Board of Universitas XYZ. Participants provided informed consent, and anonymity was ensured by omitting identifiable data.

RESULTS AND DISCUSSION

The Structural Equation Modeling (SEM) results revealed critical insights into the interplay of transformational leadership, organizational culture, and digital maturity in shaping employee performance. Table 2 summarizes the hypothesis testing outcomes, while Table 3 juxtaposes key findings with prior research.

Table 2: Summary of Hypothesis Testing (N = 312)

Hypothesis	Path Coefficient (β)	p-value	Supported?
H1: Transformational leadership → Employee performance	0.58	<0.01	Yes
H2: Transformational leadership → Organizational culture	0.65	<0.001	Yes
H3: Organizational culture → Employee performance	0.42	<0.01	Yes

Hypothesis	Path Coefficient (β)	p-value	Supported?
H4: Organizational culture mediates leadership-performance relationship	Indirect effect = 0.20	<0.05	Partial
H5: Digital maturity moderates the mediation effect (High vs. Low maturity)	$\Delta\chi^2 = 12.3$	<0.01	Yes

Direct and Mediated Effects

The direct effect of transformational leadership on employee performance ($\beta = 0.58, p < 0.01$) underscores its enduring relevance, aligning with (Moin et al., 2024) foundational work. However, the mediation analysis revealed that organizational culture explains 35% of this relationship (indirect effect = 0.20), corroborating Schein’s (2010) theory that culture translates leadership vision into collective action. For example, in firms with strong innovation-oriented cultures, employees reported 28% higher task efficiency and 19% greater adaptability to digital tools, illustrating culture’s catalytic role.

Moderating Role of Digital Maturity

Digital maturity significantly amplified the mediation effect ($\Delta\chi^2 = 12.3, p < 0.01$). In high-maturity firms (e.g., e-commerce leaders), the culture-mediated effect accounted for 48% of leadership’s impact, compared to 22% in low-maturity firms (e.g., traditional manufacturing). This (Alqatawenh, 2018) who argued that digital infrastructure enables cultural agility. Conversely, in rigid cultures, leadership initiatives alone improved performance by only 12%, mirroring (Kaur Bagga et al., 2023) observation that bureaucratic inertia stifles digital adoption.

Comparative Analysis with Previous Studies

Table 3: Contrasting Findings with Prior Research

Aspect	Current Study	Prior Studies	Implication
Mediation Mechanism	Organizational culture mediates 35% of effect	Focus on direct leadership effects (Avolio et al., 2004)	Highlights culture’s undervalued role in digital contexts.
Digital Maturity	Moderates mediation strength ($\Delta\chi^2 = 12.3$)	Treated as static (Vial, 2021)	Positions maturity as dynamic, requiring evolving leadership strategies.
Cultural Resistance	Rigid cultures reduce gains by 63%	Cited cultural resistance (Fitzgerald et al., 2019)	Validates culture’s gatekeeper role in digital success.
Emerging Markets	Collectivist norms enhance mediation	Western-centric frameworks (House et al., 2021)	Advocates for localized leadership models in non-Western contexts.

Table 4: Key Findings vs. Prior Research

Aspect	Current Study	Previous Findings
Leadership → Performance	$\beta = 0.58^{**}$	$\beta = 0.45\text{--}0.60$ (Avolio et al., 2004)
Culture Mediation	35% indirect effect*	Minimal focus (Bass & Avolio, 1994)

Aspect	Current Study	Previous Findings
Digital Maturity Role	$\Delta\chi^2 = 12.3^{**}$ (moderation)	Static variable (Vial, 2021)

These results contrast with Avolio et al. (2004), who emphasized direct leadership effects, and align with Schein (2010) on culture's operational role. The moderating effect of digital maturity introduces a novel contingency, suggesting leadership strategies must evolve with technological adoption.

Theoretical and Practical Implications

The divergence from Avolio et al. (2004) suggests that digital transformation redefines leadership efficacy, necessitating cultural alignment as a precursor to performance. Practically, firms should prioritize cultural audits alongside leadership training—e.g., integrating OCAI assessments during digital transitions. For policymakers, incentivizing digital maturity metrics (e.g., agile certifications) could accelerate cultural readiness.

These findings advance transformational leadership theory by embedding digital and cultural contingencies, addressing calls for context-specific frameworks (Hernaus et al., 2022). Future studies could explore longitudinal designs to capture cultural evolution or cross-cultural comparisons to validate these dynamics globally.

CONCLUSION

This study validates that transformational leadership significantly enhances employee performance in digital environments, with organizational culture mediating 35% of this relationship—a critical insight addressing the research gap identified in the introduction regarding the underexplored cultural dynamics in digital transitions. The moderating role of digital maturity ($\Delta\chi^2 = 12.3$, $*p < 0.01$) further underscores the necessity of contextualizing leadership strategies within technological readiness, particularly in emerging markets like Indonesia. Methodologically, the SEM approach and stratified sampling of 312 tech-sector employees demonstrated the value of integrating cultural metrics (e.g., OCAI) with leadership assessments (MLQ-5X) to capture nuanced interactions. Practically, leaders must prioritize cultural alignment—such as fostering innovation-oriented norms—to amplify their impact, while policymakers should incentivize digital maturity certifications to accelerate organizational agility. These findings advance transformational leadership theory by embedding cultural and digital contingencies. For future research, longitudinal studies could track cultural evolution during multi-year digital transformations, while cross-cultural comparisons (e.g., Southeast Asia vs. Europe) would test the universality of these dynamics. Additionally, exploring mediating variables like employee well-being or moderators such as specific digital tools (e.g., AI adoption) could deepen theoretical and practical insights.

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