






# “The role of business transformation strategy in Indonesian regional development banks”

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# THE ROLE OF BUSINESS TRANSFORMATION STRATEGY IN INDONESIAN REGIONAL DEVELOPMENT BANKS

## Abstract

Rapid advances in technology and shifting customer expectations have intensified competition in the financial industry, forcing Indonesia's banking sector to adopt adaptive and innovative strategies to remain competitive in an increasingly complex and uncertain environment. This study investigates the role of business transformation strategy in organizational performance. Employing a quantitative approach using Structural Equation Modeling (SEM), the study analyzes data collected from 255 Branch Managers across 27 Regional Development Banks in Indonesia. The coefficient of determination for the business transformation strategy was 0.69, indicating that 69% of its variance could be explained by environmental dynamism, transformational leadership, talent development, and digital adoption. Similarly, the  $R^2$  value for organizational performance was 0.51, indicating that digital adoption and business transformation strategy accounted for 51% of its variance. The findings reveal that environmental dynamism (t-value 1.85) and talent development (t-value 1.58) do not positively affect business transformation strategy. Instead, transformational leadership (t-value 2.38) and digital adoption (t-value 4.28) positively affect business transformational strategy. Furthermore, business transformation strategy (t-value 3.10) positively affects organizational performance. Meanwhile, business transformation strategy does not mediate the influences of environmental dynamism, talent development, and transformational leadership on organizational performance but strongly mediates digital adoption. This study emphasizes that business transformation strategy is the cornerstone for aligning digital adoption and leadership approaches to drive organizational performance. This study contributes to understanding business transformation strategy in the banking industry by providing technology-driven strategic insights from Indonesian Regional Development Banks.

## Keywords

business transformation strategy, digital adoption,  
organizational performance, regional development bank

## JEL Classification

G21, L10, L25

## INTRODUCTION

Fueled by rapid technological advancements and evolving customer expectations, competition in the financial industry has created a complex and uncertain business environment (Jefts, 2023). This dynamic landscape compels Indonesia's banking industry to enhance its competitiveness and adapt its strategies for survival. Recognizing the strategic importance of Regional Development Banks (RDB), Indonesian banking authorities launched the RDB Regional Champion program in 2010, followed by the RDB Transformation Program in 2015 (Akyuwen et al., 2019). Despite these initiatives, RDBs continue to grapple with significant challenges, including limited contributions to regional economies, inadequate governance and infrastructure, and a lack of competitiveness in products and services (OJK, 2015).

These challenges underline the urgent need for RDBs to undergo effective business transformations to compete not only with traditional

banks but also with emerging fintech competitors (Nurfadilah et al., 2022; Machani et al., 2015; Thuda et al., 2023; Santoso et al., 2020). However, research on business transformation strategy in the banking sector, mainly focusing on the unique context of RDBs in Indonesia, remains limited. Despite the urgency for transformation, a critical gap exists in understanding how business transformation strategy drives organizational performance within Indonesian RDBs.

## 1. LITERATURE REVIEW

Strategic management theories offer diverse perspectives on effective strategies and structures in response to environmental and market changes, highlighting the pivotal roles of top management and employees. Institutional theory, as posited by Raynard et al. (2016), suggests that organizational strategies are primarily shaped by the expectations of the external environment. This theory underscores the significant influence of external factors on organizational performance. From an internal perspective, Ambrosini and Thomas (2016) highlight that Resource-Based Theory (RBT) is fundamentally rooted in the internal strengths of an organization rather than external market forces. Moreover, Grimm et al. (2006) position RBT as foundational to understanding internal company factors, which can be strategically enhanced through Resource Optimization Theory (ROT), emphasizing the critical role of management in efficiently utilizing resources for competitive advantage. However, Sirmon et al. (2011) critique RBT for overlooking managerial roles, while ROT acknowledges managers as vital in resource management. Porter's (1980) competitive strategy theory emphasizes that organizational strategies should reflect their external environment while also beginning to incorporate internal resources in the strategy formulation process. To bridge the gap between external and internal factors, Morton and Forrester (1995) advocate for a strategic approach that integrates external influences and internal dimensions, positioning strategy at the center of this integration. Muzyka et al. (1995) elaborate on this integrative perspective, which advocates for a transformation toward more adaptive and entrepreneurial organizations. McKeown and Philip (2003) assert that successful business transformation stems from comprehensive competitive strategies.

The relationship between environmental dynamism and organizational strategy is complex and multifaceted, with empirical studies revealing en-

abling and constraining effects. Environmental dynamism is unpredictable changes in a company's external environment driven by market competition, technological innovation, and industrial authority (Zhang & Zhu, 2021). The study by Khourouh et al. (2019) on 130 creative industries in Indonesia shows that environmental dynamism does not have a significant relationship with sustainable competitive advantage but can be mediated by strategic alliances. Khourouh et al. (2019) say this occurs because of an essential relationship between environmental dynamics and strategic alliances. These studies show that environmental dynamism can positively influence company strategy. Agyapong et al. (2020) stated that environmental dynamism strengthens the positive effect of knowledge management capabilities on innovation strategies. However, Agyapong et al. (2020) reminded us that environmental dynamism can weaken the relationship between strategy and company performance. Furthermore, research by Idris and Momani (2013) on 53 managers and supervisors of cellular companies in Jordan revealed that environmental dynamism significantly influenced marketing strategy. Other studies show that environmental dynamics positively influence corporate strategy choices (Miles et al., 2000; Akgul et al., 2015). Based on these studies, it can be concluded that strategy is influenced by external factors such as environmental dynamism.

In today's knowledge-based economy, human capital is widely recognized as a critical source of competitive advantage for organizations. Therefore, strategic talent development initiatives are essential for attracting, developing, and retaining high-performing individuals who can drive organizational success. Talent development is a multifaceted process that encompasses the planning, selecting, and developing employees to achieve the organization's strategic goals (Abiwu & Martins, 2022). According to Anand (2011), employee involvement influences how firms implement strategies and achieve their business objectives.

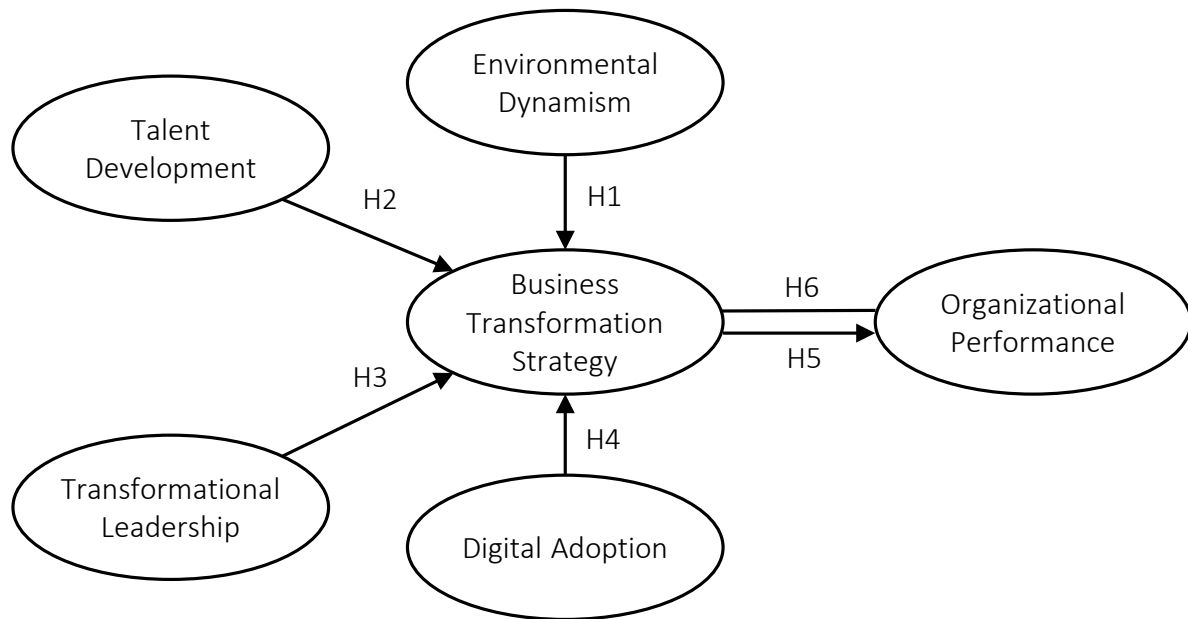
Managing and developing talent is a “strategy” because a highly skilled and engaged workforce is essential for achieving organizational goals. Sareen and Mishra (2016) posit that organizations can experience substantial growth if talent development is managed effectively. Sareen and Mishra further argues that talent management can be a key organizational strategy for enhancing business performance. Meanwhile, Montero Guerra et al.’s (2023) study in Spain revealed a positive correlation between digital transformation and talent development, highlighting the importance of aligning talent strategies with technological advancements. Montero Guerra et al. emphasize that “people” are a strategic asset for companies undergoing business transformation. Based on these concepts, talent development affects corporate strategy.

On the other hand, leadership is an essential component in an organization that plays a role in designing and executing strategy. Transformational leadership, characterized by the ability to inspire and motivate followers, has been identified as a critical factor in driving organizational performance (Saira et al., 2021). Freihat (2020) asserts that transformational leadership positively affects strategy. In a study of 312 medical agency leaders in Jordan, Freihat (2020) observed the profound influence of transformational leadership, mainly when driven by a clear strategy supported by all organizational dimensions. Similarly, Özgül and Zehir (2023) revealed that transformational leadership significantly influences financial performance through company strategy. The support of top management is crucial in determining organizational strategy and priorities. In conclusion, transformational leadership is vital for organizations developing strategies in today’s dynamic and competitive business environment.

The pervasive influence of technology in today’s business environment necessitates that organizations strategically leverage digital tools and platforms to enhance their operational efficiency, agility, and competitiveness. In the current digital and competitive era, the extent to which technology is integrated into a company’s activities significantly influences its strategies for achieving business objectives. Waty et al. (2022) researched 100 small and medium-sized enterprises in the culinary sector of Yogyakarta, Indonesia, revealing that digital

adoption was positively related to business agility and played an essential role in increasing the competitive advantage of the culinary business studied. The findings of Cuevas-Vargas et al. (2021) demonstrate a relationship between adopting information and communication technology and marketing innovation to improve business performance. To sustain a competitive edge, Cuevas-Vargas et al. (2021) recommend the development of innovative advertising strategies. Conversely, Oeij et al. (2022), in their study of 123 logistics company managers in the Netherlands, identified a relationship between employee innovation adoption and competition strategy. These authors suggest that this relationship could be strengthened, as competition strategy did not demonstrate a correlation with employee involvement. Based on this research, it can be understood that a company’s strategy can be influenced by digital adoption.

Andra and Andrişan’s (2022) definition of strategy provides an understanding of the urgency of achieving the bank’s goals as an organization. Timotius’s (2023) research on 29 MSME owners in Indonesia showed a significant effect of business strategy on the company’s competitive advantage. Timotius (2023) reminded us of the importance of innovation in business strategy to increase the company’s competitiveness. In the banking context, the findings of Abu Khalaf and Alajani (2021), when studying commercial banks in Jordan, stated that product diversification as a strategy affects organizational performance. The positive effect of strategy diversification only occurs in personal loans, mortgages & corporations. Abu Khalaf and Alajani (2021) reminded banks to be careful when developing credit for MSMEs and the government because the effect of diversification on organizational performance is negative. Furthermore, Ivascu et al. (2023) research on 512 Islamic bank managers in Pakistan strengthens Abu Khalaf and Alajani’s findings that strategy significantly positively affects organizational performance. Meanwhile, in the context of BPD, Kamaludin and Nashsyah’s (2020) research in Sumatra on 119 managers saw a significant increase in organizational performance when BPD implemented a competitive strategy. This study emphasizes the importance of a bank’s ability to execute a competitive strategy so that organizational competitiveness increases. When associated



**Figure 1.** Research model

with transformation, the study by Do et al. (2022) on banking in Vietnam revealed a positive influence of digital transformation on bank performance. Digital transformation strategy has a positive relationship with organizational performance (Wang, 2020). According to Wang et al. (2020), a successful transformation strategy is determined by comprehensive changes in products and services, organizational structure, and business processes. From these studies, business transformation strategy can be understood as a factor that affects organizational performance.

Business transformation has been a subject of extensive research, yet its definition remains elusive due to its broad scope. McKeown and Philip (2003) identified four key characteristics of successful business transformation: the discovery of innovative strategies and processes, the active involvement of all organizational elements, a strong foundation in corporate values and culture, and the seamless integration of all management processes, including evaluation and performance management, business development, and core business processes. Furthermore, strategy is inextricably linked to an organization's ability to adapt to challenges and ensure long-term sustainability. Theoretically, strategy can be defined as a comprehensive action plan designed to achieve specific organizational objectives. A clear defini-

tion of business transformation strategy can be found in Davidson's (1999) stages of business transformation, which encompass a shift in organizational vision, a transformation of organizational culture, and a measurable performance improvement. This concept becomes more actual in previous studies that examine business strategy (Wongsansukcharoen et al., 2015; López-Cabarcos et al., 2015) and transformation strategy (Hess et al., 2016; Wang et al., 2020) to improve a company's performance or competitive advantage. From the studies and concepts discussed previously, business transformation strategy can bridge the gap between external and internal factors that affect an organization.

Based on this understanding, a business transformation strategy can be defined as a strategic plan and management process designed by considering the organization's capabilities for fundamental aspects in stages to achieve organizational goals. Previous research shows that strategy is affected by external factors such as environmental dynamism and internal factors like talent, leadership, and technology, emphasizing their roles in enhancing organizational performance. It highlights theories such as Institutional Theory and RBT to explain how internal and external factors shape strategies. In the context of strategic management studies, business transformation strategy can play

a critical role in aligning an organization’s internal capabilities with external pressures to foster organizational performance.

This study aims to examine the role of business transformation strategy on organizational performance. The following hypotheses are formulated:

*H<sub>1</sub>: Environmental dynamism has a positive effect on business transformation strategy.*

*H<sub>2</sub>: Talent development has a positive effect on business transformation strategy.*

*H<sub>3</sub>: Transformational leadership has a positive effect on business transformation strategy.*

*H<sub>4</sub>: Digital adoption has a positive effect on business transformation strategy.*

*H<sub>5</sub>: Business transformation strategy has a positive effect on organizational performance.*

*H<sub>6</sub>: Business transformation strategy plays a mediating role in organizational performance.*

## 2. METHOD

The study employed a quantitative methodology to address its objectives. Branch Managers served as the unit of observation. This selection was grounded in established best practices within the banking industry, where branch managers play a pivotal role in implementing corporate strategies and formulating business strategies at the branch level. With 576 RDB branch offices, the sample size was determined using the Slovin formula, incorporating a 5% margin of error, resulting in a minimum requirement of 236 respondents. Quantitative data were gathered through a survey utilizing a 6-point Likert scale questionnaire (1 = strongly disagree; 6 = strongly agree).

Out of 265 survey responses, 10 were excluded due to unmet criteria, yielding a final sample size of 255. Based on Table 1, most respondents were men, and the majority had worked for 15-20 years and over 20 years. Geographically, most respondents came from Jawa, Sulawesi, and Sumatra. Furthermore, the majority of respondents worked in branches that handled regional government transactions.

**Table 1.** Demographic profile

Source: Survey results.

Demographic	Categories	Total	%
Gender	Male	175	69%
	Female	80	31%
Length of Work	< 10 years	18	7%
	10 – 15 years	51	20%
	15 - 20 years	105	41%
	> 20 years	81	32%
Location of Branch Office	Bali and Nusa Tenggara	17	7%
	Jawa	79	31%
	Kalimantan	35	14%
	Maluku dan Papua	16	6%
	Sulawesi	61	24%
	Sumatera	47	18%
Category of Branch Office where the respondent works	Managing Regional Government transactions	173	68%
	Not managing Regional Government transactions	82	32%

Structural Equation Modeling with Lisrel v.8.8 was employed to analyze the quantitative data. The analysis followed a two-step approach: measurement model examination and structural model analysis. The process commenced with assessing the measurement model through confirmatory factor analysis and SEM analysis using Lisrel. CFA results were deemed acceptable if all dimensions achieved a loading factor value  $\geq 0.50$  and a Composite Reliability  $\geq 0.70$ , as recommended by Hair et al. (2019).

The study encompassed six variables, each operationalized with three dimensions and three indicators. Environmental dynamism was measured based on the framework developed by Zhang (2021). The dimensions and indicators for talent development were derived from the studies conducted by Nurfadilah et al. (2022) and Panda and Sahoo (2015). Transformational leadership was measured, drawing upon the research of Bass et al. (2003) and Siswanto and Yuliana (2022). Digital adoption was assessed using three dimensions adapted from the study by Cuevas-Vargas et al. (2021). The dimensions and indicators for business transformation strategy were adopted from the “business strategy” construct in the study by Wongsansukcharoen et al. (2015) and the “trans-

formation strategy” construct in the study by Wang et al. (2020). Finally, organizational performance was measured using dimensions adapted from Al-Shari and Lokhande (2023).

### 3. RESULTS

Table 2 displays multivariate normality test results indicating that P-value skewness and Kurtosis obtained  $0.000 < 0.05$ , which means that the data are not normally distributed (Haryono, 2016). Furthermore, the analysis must be continued through *Robust Maximum Likelihood* approach in the Lisrel application (Boomsma, 1983).

In first-order confirmatory factor analysis (Table B1 of Appendix), all dimensions met the criteria of a loading factor value  $\geq 0.50$  and a Composite Reliability  $\geq 0.70$ , signifying acceptable valid-

ity and reliability. However, in the second-order CFA (Table B2, Appendix), the dimensions of the Business Process Perspective and Learning & Growth Perspective (within Organizational Performance) exhibited loading factor values below 0.50. Consequently, these dimensions were removed from further analysis (Table B3, Appendix).

Following the second-order confirmatory factor analysis, Table 3 displays all remaining dimensions exhibited loading factor values  $\geq 0.50$ , indicating validity. The Composite Reliability values for all variables were  $\geq 0.70$ , while the Average Variance Extracted values were  $\geq 0.50$ , confirming the variables’ reliability.

Table 4 shows the goodness-of-fit evaluation, which assessed the overall model and determined its congruence with the observed data.

**Table 2.** Test of multivariate normality for continuous variables

Source: Lisrel output.

Skewness			Kurtosis			Skewness and Kurtosis	
Value	Z-Score	P-Value	Value	Z-Score	P-Value	Chi-Square	P-Value
1266.426	70.000	0.000	4033.933	23.576	0.000	5455.864	0.000

**Table 3.** Confirmatory factor analysis result

Source: Lisrel output.

Dimensions	Loading Factor	CR	AVE
<b>Environmental Dynamism</b>			
Market Dynamism	0.91	0.929	0.814
Technology Dynamism	0.99		
Regulation Dynamism	0.80		
<b>Talent Development</b>			
Training and Development	0.73	0.841	0.639
Career Development	0.78		
Creativity	0.88		
<b>Transformational Leadership</b>			
Inspirational Motivation	1.00	0.970	0.914
Intellectual Stimulation	0.96		
Individualized Consideration	0.93		
<b>Digital Adoption</b>			
Infrastructure of ICT	0.92	0.951	0.866
Strategic Alignment	0.96		
Individual Learning	0.91		
<b>Business Transformation Strategy</b>			
Strategy Selection	0.93	0.960	0.890
Changes in Value Creation	0.94		
Structural Changes	0.96		
<b>Organizational Performance</b>			
Financial Perspective	0.91	0.873	0.775
Customer Perspective	0.85		

**Table 4.** Goodness of fit assessment

Source: Lisrel output.

Good of Fit Indices	Value	Criteria	Results
<b>Absolute Fit Measures</b>			
Chi Square (df=115, α=0,05)	152.18	≤ 132.14 (Chi Square table)	Not Fit
Probability	0.00271	≥ 0.05	Not Fit
GFI	0.90	≥ 0.90	Good Fit
RMSEA	0.041	≤ 0.08	Good Fit
<b>Incremental Fit Measures</b>			
NFI	0.99	≥ 0.90	Good Fit
AGFI	0.86	≥ 0.90	Marginal Fit
RFI	0.98	≥ 0.90	Good Fit
IFI	1.00	≥ 0.90	Good Fit
CFI	1.00	≥ 0.90	Good Fit
<b>Parsimonious Fit Measures</b>			
PGFI	0.63	0 ≤ PGFI ≤ 1	Good Fit
PNFI	0.78	PNFI ≥ 0.5	Good Fit

The research model demonstrated a good fit by fulfilling all criteria within the absolute, incremental, and parsimonious fit indices presented in Table 4. Absolute fit indices require the satisfaction of two criteria, incremental fit indices necessitate four criteria, and parsimonious fit indices require two criteria for a model to be deemed well-fitting.

The following structural equations were derived:

The coefficient of determination (R-squared) for Business Transformation Strategy was 0.69, indicating that environmental dynamics, transformational leadership, talent development, and

digital adoption could explain 69% of its variance. The R-squared for Organizational Performance was 0.51, suggesting that Digital Adoption and Business Transformation Strategy could explain 51% of its variance.

Hypothesis testing results (see Table 5), revealed a nuanced interplay of factors influencing business transformation strategy and organizational performance. While environmental dynamism (*H1*) and talent development (*H2*) did not exhibit a positive effect on business transformation strategy, both transformational leadership (*H3*) and digital adoption (*H4*) showed a positive effect.

**Table 5.** Structural equation result

Source: Lisrel output.

Dependent Variable	Predictor	Estimate (β)	Standard Error (β)	t-value	Error Variance	Error Variance (SE)	t-value (EV)	R <sup>2</sup>
BTS	ED	0.090	0.048	1.85	0.31	0.063	4.95	0.69
	TD	0.20	0.13	1.58				
	TL	0.20	0.082	2.38				
	DA	0.47	0.11	4.28				
OP	BTS	0.39	0.13	3.10	0.49	0.079	6.18	0.51
	DA	0.37	0.13	2.77				

**Table 6.** Hypothesis testing result

Source: Lisrel output.

Path	Coefficient	t Values	t Table	Results
Environmental Dynamism → Business Transformation Strategy	0.09	1.85	1.967	<i>H1</i> rejected
Talent Development → Business Transformation Strategy	0.20	1.58	1.967	<i>H2</i> rejected
Transformational Leadership → Business Transformation Strategy	0.20	2.38	1.967	<i>H3</i> accepted
Digital Adoption → Business Transformation Strategy	0.47	4.28	1.967	<i>H4</i> accepted
Business Transformation Strategy → Organizational Performance	0.39	3.10	1.967	<i>H5</i> accepted



Furthermore, a strong positive effect of business transformation strategy on organizational performance ( $H5$ ).

This study employed the Sobel test to examine the presence and significance of mediation effects. By incorporating a mediator into the regression analysis, the study aimed to determine whether the mediator significantly influenced the relationship between the independent and dependent variables.

**Table 7.** Mediation effect testing result

Source: Lisrel output.

Path	Indirect Effects	Sobel test	Results
ED → BTS → OP	0.035	1.590	Insignificant
TD → BTS → OP	0.078	1.369	Insignificant
TL → BTS → OP	0.078	1.892	Insignificant
DA → BTS → OP	0.183	2.455	Significant

Table 6 examines the mediating role of Business Transformation Strategy between various independent variables and Organizational Performance, revealing an important finding. While the Business Transformation Strategy did not significantly mediate the effects of environmental dynamics, talent development, or transformational leadership on organizational performance, it did demonstrate significant mediation in the relationship between digital adoption and organizational performance. This suggests that the positive effect of Digital Adoption on Organizational Performance is channeled and amplified through a well-defined Business Transformation Strategy.

## 4. DISCUSSION

Various challenges have underscored the imperative for Regional Development Banks to embrace effective business transformation strategy (Nurfadilah et al., 2022; Machani et al., 2015; Santoso et al., 2020). Therefore, this study addresses this gap by investigating how a business transformation strategy can effectively drive organizational performance. The findings offer valuable insights into the complexities of this transformation process, revealing both expected alignments and unexpected deviations from the existing literature. While previous research, such as the study by Fadilah Aswar et al. (2024), highlighted a signif-

icant influence of Environmental Dynamism on company strategy, the findings of this study suggest otherwise (Hypothesis 1 is rejected). This discrepancy might be attributed to the unique characteristics of the regional banking landscape in Indonesia, where factors like regulations, market dynamics, and technological advancements may not exert the same degree of influence on strategic decisions.

Contrary to expectations set by prior research (Nurfadilah et al., 2022; Anand, 2011), this study reveals a surprising result by indicating that Talent Development does not positively affect Business Transformation Strategy. This unexpected result raises concerns, particularly given the recognized importance of talent in driving organizational change. In line with the transformational leadership concept (McKeown & Philip, 2003; Radi Afsouran et al., 2022), this study confirms the positive effect of Transformational Leadership on Business Transformation Strategy and emphasizes the importance of selecting competent and trusted leaders who foster a culture of innovation and support employee initiatives. These findings reveal that Digital Adoption positively affects Business Transformation Strategy, consistent with recent studies emphasizing its importance in the banking industry (Cuevas-Vargas et al., 2021; Oeij et al., 2022). It emphasizes the need for organizations to prioritize digital adoption initiatives, particularly in implementing digital banking solutions, to remain competitive in a rapidly evolving financial landscape. The research reinforces the importance of aligning IT strategy with business strategy to enhance Organizational Performance.

Furthermore, this study confirms that Business Transformation Strategy positively affects Organizational Performance. It aligns with the study by Nurfadilah et al. (2022), which emphasizes the importance of business transformation for organizational survival and competitiveness. Even though the current strategic framework from banking authorities might not be perfectly optimized, the results demonstrate that RDB's proactive strategy formulation contributes to their strength, competitiveness, and overall contribution to the Indonesian banking sector. Interestingly, the analysis reveals that Business Transformation Strategy significantly mediates the positive im-

pact of Digital Adoption on Organizational Performance. The findings support Van Zeebroeck et al.'s (2021) argument that strategy and technology are inherently interconnected. In other words, RDB's embrace of digital adoption is crucial for translating its business transformation strategies into tangible performance improvements. It highlights the importance of digital adoption as a core principle for RDB when creating new strategies or updating existing ones.

This study challenges established theories regarding strategy's role in organizational performance. Contrary to Porter (1980), business transforma-

tion strategy did not significantly mediate the relationship between environmental dynamism and organizational performance, suggesting a need for RDBs to better align their strategy with the rapidly changing external environment, particularly in the face of fintech disruption. Furthermore, the findings challenge Sirmon et al.'s (2011) concept of the manager as a strategy executor. The insignificant mediating effect of managerial influence on the relationship between business transformation strategy and organizational performance suggests that while managers are essential, they should shift towards effectively orchestrating organizational resources to implement technology-driven strategy.

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## CONCLUSIONS

This study examined the role of business transformation strategy on organizational performance. The findings confirm the effect of business transformation strategy on organizational performance. Specifically, environmental dynamism and talent development were considered, but this study highlights the influence of transformational leadership and digital adoption on business transformational strategy. It also revealed that business transformation strategy strongly mediates the influence of digital adoption on organizational performance. Business transformation strategy acts as a critical link between factors such as digital adoption and leadership approach and the ultimate goal of improving organizational performance. It is not just a plan but a dynamic process that channels and amplifies the impact of these factors on how well an organization functions and achieves its goals. These findings highlight the need for organizations to prioritize and seamlessly integrate digital tools and approaches within their broader transformation strategies.

This study provides valuable insights into business transformation and organizational performance in the banking industry, focusing on the unique context of Regional Development Banks in Indonesia. By examining this unique group of banks, the study uncovers insights applicable to other bank groups, including state-owned and private banks. This comparative approach allows for a more comprehensive understanding of business transformation in the banking industry. However, other factors, like government support, also play a role and should be explored in future studies. Talking directly with critical stakeholders could provide valuable insights, and comparing results across different types of banks would strengthen these findings.

## AUTHOR CONTRIBUTIONS

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Formal analysis: Audy Thuda.

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Writing – original draft: Audy Thuda.

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## APPENDIX A

**Table A1.** Questionnaire list

Dimensions	Indicators	Code
<b>Environmental Dynamism</b>		
Market Dynamism	Customers' product preference for the bank's main products is slowly changing	DP1
	Our customers tend to look for new products all the time	DP2
	It is very difficult to predict any changes in the banking market	DP3
Technology Dynamism	Technologies in the banking industry are changing rapidly	DT1
	It is very difficult to forecast where the technology in the banking industry will be in the next two to three years	DT2
	Several new product ideas have been made possible through technological breakthroughs in the banking industry	DT3
Regulation Dynamism	Banks often have to cope with unexpected changes in laws, rules, or policies	DR1
	Uncertainty in laws and regulations presents problems for bank business operations	DR2
	The legal system in our country is volatile	DR3
<b>Talent Development</b>		
Training and Development	The company's training and development programs designed to develop skills that benefit in completing my works effectively in the long-term	PP1
	The company's training and development programs has sharpened my characters to be more ethical, honest, and motivated	PP2
	Information and Technology (IT) training program has helped me in leveraging the use of digital technology	PP3
Career Development	The company has a career development plan to prepare the company for the future	PK1
	The company has succession planning for each position	PK2
	Employee promotions at the company prioritize achievement and then seniority	PK3
Creativity	The company encouraged their employee to take initiative	KV1
	The company open to new ideas	KV2
	The company has flexibility in procedures	KV3
<b>Transformational Leadership</b>		
Inspirational Motivation	My leader encourages me to see a problem as a learning opportunity	M11
	My leader acknowledges my achievement	M12
	My leader is a trusted person	M13
Intellectual Stimulation	My leader appreciates every new idea to solve the problem that an organization faces	S11
	My leader provides reasons to change my perspectives	S12
	My leader gives me what I want in return for my support to him	S13
Individualized Consideration	My leader wholeheartedly supports me when he/she feels that my idea is good for the company	PI1
	My leader knows what I want and helps me get it	PI2
	My leader compliments me if I perform well	PI3
<b>Digital Adoption</b>		
Infrastructure of ICT	The company develops and maintains their technology hardware & software	IF1
	The company provides staff to manage their information technology	IF2
	The company implements new technology applications	IF3
Strategy Alignment	The company aligns IT strategy with business strategy	PLS1
	The company updating IT applications for business strategic goals	PLS2
	The company deploying IT strategies for business processes	PLS3
Individual Learning	The company provides IT-related training	PBJ1
	The company adapts employees to use IT applications	PBJ2
	The company develops employees' IT knowledge and skills	PBJ3
<b>Business Transformation Strategy</b>		
Strategy Selection	The company implements a cost-efficiency strategy	PS1
	The company develops new product	PS2
	The company implements cost-efficiency and product development simultaneously	PS3
Changes in Value Creation	The company develops a more digital product display for customers	CVC1
	The company prepares ways to create revenue from future business operations	CVC2
	The company prepares their future business scope	CVC3

**Table A1 (cont.).** Questionnaire list

Dimensions	Indicators	Code
Structural Changes	The company provides persons in charge of their digital transformation endeavor	PST1
	The company has a plan to integrate new operations into existing structures or create separate entities	PST2
	The company develops new competencies	PST3
<b>Organizational Performance</b>		
Financial Perspective	Company transformation has increased the market share	PF1
	Company transformation has increased efficiency	PF2
	Company transformation has increased profitability	PF3
Customer Perspective	The quality of customer services improves	PN1
	There is a decrease in customer complaints	PN2
	There is an increase in customer loyalty	PN3
Business Process Perspective	The company reduces the time to complete the work	PPB1
	Paper use is reduced as the company switches to digital technology	PPB2
	The level of quality of service process increases	PPB3
Learning & Growth Perspective	The quality of training for employees increases	PLG1
	The skills of employees increase	PLG2
	The company improves the creativity of employees	PLG3

## APPENDIX B

**Table B1.** Result of confirmatory factor analysis (first-order)

Source: Lisrel output.

Dimension	Indicator	Loading Factor	CR	AVE
<b>Environmental Dynamism</b>				
Market Dynamism	DP1	0.74	0.760	0.514
	DP2	0.66		
	DP3	0.75		
Technology Dynamism	DT1	0.75	0.766	0.522
	DT2	0.70		
	DT3	0.72		
Regulation Dynamism	DR1	0.77	0.793	0.561
	DR2	0.75		
	DR3	0.73		
<b>Talent Development</b>				
Training and Development	PP1	0.75	0.835	0.629
	PP2	0.85		
	PP3	0.77		
Career Development	PK1	0.90	0.837	0.639
	PK2	0.87		
	PK3	0.60		
Creativity	KV1	0.77	0.849	0.653
	KV2	0.83		
	KV3	0.82		
<b>Transformational Leadership</b>				
Inspirational Motivation	MI1	0.68	0.815	0.597
	MI2	0.79		
	MI3	0.84		
Intellectual Stimulation	SI1	0.99	0.766	0.550
	SI2	0.72		
	SI3	0.39		

**Table B1 (cont.).** Result of confirmatory factor analysis (first-order)

Dimension	Indicator	Loading Factor	CR	AVE
Individualized Consideration	PI1	0.89	0.765	0.530
	PI2	0.53		
	PI3	0.72		
<b>Digital Adoption</b>				
Infrastructure of ICT	IF1	0.81	0.847	0.648
	IF2	0.78		
	IF3	0.83		
Strategy Alignment	PLS1	0.90	0.927	0.810
	PLS2	0.90		
	PLS3	0.90		
Individual Learning	PBJ1	0.86	0.888	0.725
	PBJ2	0.87		
	PBJ3	0.83		
<b>Business Transformation Strategy</b>				
Strategy Selection	PS1	0.67	0.755	0.510
	PS2	0.81		
	PS3	0.65		
Changes in Value Creation	CVC1	0.71	0.845	0.646
	CVC2	0.87		
	CVC3	0.82		
Structural Changes	PST1	0.79	0.805	0.580
	PST2	0.68		
	PST3	0.81		
<b>Organizational Performance</b>				
Financial Perspective	PF1	0.71	0.830	0.621
	PF2	0.77		
	PF3	0.87		
Customer Perspective	PN1	0.80	0.873	0.696
	PN2	0.82		
	PN3	0.88		
Business Process Perspective	PPB1	0.51	0.807	0.595
	PPB2	0.87		
	PPB3	0.88		
Learning & Growth Perspective	PLG1	0.89	0.927	0.810
	PLG2	0.95		
	PLG3	0.86		

**Table B2.** Result of confirmatory factor analysis (second-order)

Source: Lisrel output.

Dimension	Loading Factor	CR	AVE
<b>Environmental Dynamism</b>			
Market Dynamism	0.90	0.928	0.813
Technology Dynamism	0.99		
Regulation Dynamism	0.80		
<b>Talent Development</b>			
Training and Development	0.73	0.841	0.639
Career Development	0.78		
Creativity	0.88		



**Table B2 (cont.).** Result of confirmatory factor analysis (second-order)

Dimension	Loading Factor	CR	AVE
<b>Transformational Leadership</b>			
Inspirational Motivation	1.00	0.970	0.914
Intellectual Stimulation	0.95		
Individualized Consideration	0.93		
<b>Digital Adoption</b>			
Infrastructure of ICT	0.92	0.951	0.866
Strategic Alignment	0.96		
Individual Learning	0.91		
<b>Business Transformation Strategy</b>			
Strategy Selection	0.93	0.960	0.890
Changes in Value Creation	0.94		
Structural Changes	0.96		
<b>Organizational Performance</b>			
Financial Perspective	0.87	0.734	0.455
Customer Perspective	0.88		
Business Process Perspective	0.50		
Learning and Growth Perspective	0.20		

**Table B3.** Result of confirmatory factor analysis (dropped LGP)

Source: Lisrel output.

Dimension	Loading Factor	CR	AVE
<b>Environmental Dynamism</b>			
Market Dynamism	0.91	0.929	0.814
Technology Dynamism	0.99		
Regulation Dynamism	0.80		
<b>Talent Development</b>			
Training and Development	0.73	0.841	0.639
Career Development	0.78		
Creativity	0.88		
<b>Transformational Leadership</b>			
Inspirational Motivation	1.00	0.970	0.914
Intellectual Stimulation	0.95		
Individualized Consideration	0.93		
<b>Digital Adoption</b>			
Infrastructure of ICT	0.92	0.951	0.866
Strategic Alignment	0.96		
Individual Learning	0.91		
<b>Business Transformation Strategy</b>			
Strategy Selection	0.93	0.960	0.890
Changes in Value Creation	0.94		
Structural Changes	0.96		
<b>Organizational Performance</b>			
Financial Perspective	0.88	0.803	0.591
Customer Perspective	0.87		
Business Process Perspective	0.48		