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The Role of Transformational Leadership and Reward Systems in Enhancing Employee Performance: The Mediating Effect of Readiness for Change in Organizational Development

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Abstract:

This study investigates the role of transformational leadership and reward systems in enhancing employee performance, with readiness for change as a mediating variable within the organizational development context. The research focuses on employees of Bank Jatim, Madiun Branch, using a quantitative approach and survey method. A total of 160 permanent employees participated by completing structured questionnaires. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4 software. The results reveal that: (1) transformational leadership positively and significantly influences readiness for change; (2) rewards positively and significantly influence readiness for change; (3) transformational leadership does not significantly affect employee performance; (4) rewards do not significantly affect employee performance; (5) readiness for change has a positive and significant effect on employee performance; (6) readiness for change significantly mediates the relationship between transformational leadership and employee performance; and (7) readiness for change significantly mediates the relationship between rewards and employee performance. These findings highlight the critical role of change readiness as a catalyst in optimizing employee performance, particularly in organizations adopting transformational leadership and structured reward strategies. The study's practical implications emphasize the need to enhance employee readiness for change through targeted communication programs, adaptive training, and equitable reward systems to support sustainable organizational development.

Keywords: *Transformational Leadership, Reward Systems, Readiness For Change, Employee Performance, Organizational Development.*

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1. Introduction

The banking industry is undergoing one of the most rapid and dynamic transformations, driven by globalization, digital disruption, and evolving regulatory landscapes, particularly those issued by Bank Indonesia and the Financial Services

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Authority (OJK). These shifts compel banks not only to adapt but also to innovate in order to maintain competitive advantage. In this context, employee performance becomes a critical factor in ensuring organizational responsiveness to change. As highlighted by Sonnentag and Frese (2002), individual performance is a fundamental component of organizational success, especially in highly regulated and service-oriented sectors like banking.
However, achieving optimal performance is not solely dependent on task-related competencies. One of the most pressing challenges in the current era is how organizations, including banks, develop human resources capable of navigating structural, technological, and strategic changes. Employees who are not prepared for change may experience resistance, productivity loss, or burnout (Abdel-Ghany, 2014). Conversely, change-ready employees tend to respond positively to organizational transformation, enabling smoother transitions and sustaining performance levels (Trisnaningsih & Ratnawati, 2022; Zaman et al., 2020).

Bank Jatim, as a Regional Development Bank, holds a strategic role in supporting the economic ecosystem of East Java. The bank's recent digital transformation initiatives—such as JConnect, BI-Fast, e-samsat, and mobile banking—reflect an effort to adapt to the digital economy. These initiatives, however, significantly impact employee responsibilities, requiring not only technical adaptability but also psychological readiness. Katsaros et al. (2020) emphasized that employee readiness for change serves as a mediator between leadership approaches and organizational performance, thus making it a crucial focus area in change management.

Despite technological progress, Bank Jatim Madiun Branch has faced stagnation in performance awards since 2019, when it was named the best-performing branch with a reward of IDR 200 million. Since then, similar accolades have not been repeated, suggesting a potential decline in employee performance. This situation raises important questions about the underlying causes, especially in terms of how leadership style, reward mechanisms, and employee change readiness interact to affect performance outcomes (Amalia et al., 2023; Siswanto et al., 2021).

While transformational leadership has been widely acknowledged for its role in motivating employees and driving change (Gao et al., 2020; Jensen et al., 2020; Qalati et al., 2022), its direct impact on performance is often inconsistent. Some studies (e.g., Khan et al., 2020; Eliyana et al., 2019) report strong performance improvements under transformational leadership, while others suggest that without psychological readiness or intrinsic motivation, the impact may be limited (Shafi et al., 2020; Jensen & Bro, 2018). Similarly, reward systems are known to enhance performance (Herzberg et al., 2017; Newman et al., 2017), but their effectiveness can vary depending on how they are perceived and implemented (Lee et al., 2019; Kumari et al., 2021).

This study identifies a research gap in the limited empirical analysis that examines the combined influence of transformational leadership and rewards on employee performance through the mediating role of readiness for change, particularly in the context of public banking institutions undergoing digital transformation. Although

prior works (Carton et al., 2014; Lord et al., 2017) have explored leadership rhetoric and motivation, few have contextualized these elements in Indonesian regional banking amid technological disruption (Trisnaningsih & Ratnawati, 2022; Zaman et al., 2020). In addition, while studies on performance mediators such as job satisfaction and discipline are growing (Ketut et al., 2019; Sitopu et al., 2021), change readiness remains underexamined in this specific organizational setting.

This research offers novelty by integrating three key constructs—transformational leadership, rewards, and readiness for change—into a structural model tested in a real-world setting at Bank Jatim Madiun Branch. It adopts a quantitative approach using Partial Least Squares Structural Equation Modeling (PLS-SEM), following the guidelines of Hair et al. (2019), and is supported by validated measurement instruments (Colquitt et al., 2019; Gozhali, 2018). By examining these relationships, this study contributes to both theoretical development and practical implications in human resource and organizational change literature.

The main objective of this study is to analyze the influence of transformational leadership and reward systems on employee performance, with readiness for change as a mediating variable. Specifically, this research seeks to (1) evaluate the direct effect of leadership and rewards on change readiness and performance; (2) determine the mediating effect of change readiness; and (3) provide actionable recommendations for banking institutions to improve employee performance through strategic leadership and human resource interventions. By doing so, this study aims to inform organizational development strategies in Indonesian banking and beyond.

2. Theoretical Foundations

The grand theory underlying this research is Maslow's hierarchy of needs theory, which is the foundation for understanding the motivation behind individual actions. In the context of motivation theory, this hierarchy explains that humans will be driven to behave to fulfil unmet needs, starting from the most basic level towards higher levels. Leaders can motivate individuals by ensuring their basic needs are met before directing them towards higher achievements.

Applications of Motivation Theory can be found in transformational leadership. Transformational leaders seek to meet followers' higher-order needs, such as the need for self-actualisation and esteem, rather than just physiological or security needs. In organisations, having individual needs met increases intrinsic motivation, which in turn leads to better performance.

Transformational Leadership Theory

Transformational leadership theory originated from concepts proposed by Burns in year 1978) and Bass in year 1985). According to Bass, transformational leaders stimulate subordinates to create perceptions of leadership with a new perspective due to intellectual stimulation. Leaders are able to create perceptions as individuals who

can support and provide attention to subordinates with individualised consideration, through inspirational motivation and charisma.

Transformational leadership has the ability to motivate employees to accept and pursue difficult goals and internalise the leader's values. Transformational leaders encourage change readiness by creating an environment that supports, motivates and inspires employees to adapt to organisational change. Through employee empowerment and positive influence, transformational leaders are able to increase productivity, creativity, and efficiency.

Furthermore, *Reinforcement Theory* also has a role in the relationship of the *rewards* system in influencing employee performance. *Reinforcement Theory* was first introduced by B.F. Skinner in year 1953. Reinforcement theory is part of the *behaviourism* approach which emphasises that human behaviour is influenced by the consequences it receives. In an organisational context, this theory explains how positive or negative reinforcement can affect employee performance, motivation and behaviour in the workplace. The theory states that employee behaviour is influenced by *rewards* and *punishments*. *Rewards* can serve as positive reinforcement if they are given fairly and consistently based on employee achievement.

Employee Performance

The term performance refers to specific work activities performed by individuals within an organisation (Sonnentag & Frese, 2002). Employee performance can be understood as the stage of realisation achieved as a result of the implementation of individual duties and responsibilities in the workplace. According to Qalati et al. (2022), there are three key elements that affect employee performance in an organisation, namely organisational support, managerial capacity or productivity, and the work contribution of each individual. Performance is related to work and its results, including what to do and how to get it done effectively. In addition, Çetin & Aşkun (2018) state that performance also reflects an individual's ability to carry out activities that support the development of the organisation's core capabilities.

Performance is a central concept for academics and practitioners that is interpreted differently (Lee et al., 2019). According to Mangkunegara (2017), performance is the quality and quantity of work achieved by an employee in carrying out his duties in accordance with the responsibilities given to him. Performance is a function of the interaction between *ability*, *motivation*, and *opportunity*. This means that performance is a function of ability, motivation, and opportunity.

Rewards

Rewards are a form of appreciation or reward given to someone as an appreciation for the performance or achievement that has been achieved Herzberg developed the Hezberg Two-Factor *Theory (Motivator-Hygiene Theory),* which explains that:

1. Rewards such as recognition, achievement, responsibility, and challenging tasks are classified as motivators, which are intrinsic factors that contribute to increased job satisfaction and employee performance.

2. In contrast, aspects such as salary and work environment are classified as hygiene factors, which play a role in preventing job dissatisfaction, although not enough to significantly foster motivation.

In social exchange theory states that employees tend to show high loyalty to the organisation when their financial needs are met through adequate rewards. Employee retention and performance levels have a positive relationship with the amount and quality of rewards provided by the organisation (Kumari et al., 2021). When rewards are perceived as fair and commensurate with the contribution made, employees will be more motivated to increase productivity and stay in the organisation.

The conceptual framework is one of the supporters of a study, this is because the conceptual framework is a container where the theories related to the variables under study will be explained. These theories are used as reference materials for further discussion. Thus, the theoretical framework is prepared so that the research is believed to be true . This study examines two independent variables, namely transformational leadership and *rewards*, with change readiness as the mediating variable, and employee performance as the dependent variable. The theoretical framework used explains the relationship between the independent variable and the dependent variable, so that the research paradigm is arranged to describe the direct and indirect effects of transformational leadership and *rewards* on employee performance through change readiness as a mediating variable.

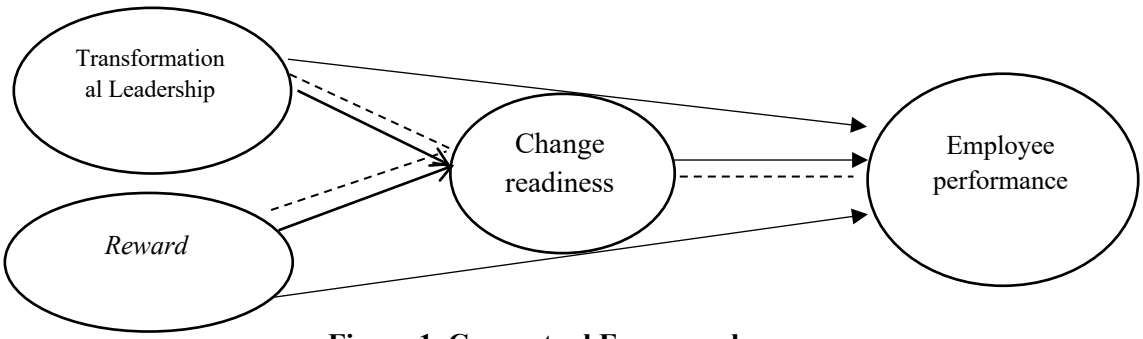


Figure 1. Conceptual Framework

3. Methodology

This research is a quantitative study that aims to examine the mediating role of change readiness in the relationship between transformational leadership and rewards on employee performance. Quantitative research is used because it is in accordance with a positivistic approach that emphasises the measurement of objective variables and statistical hypothesis testing. According to Sugiyono (2018), the quantitative approach is used to research certain populations or samples, with data collection techniques carried out through research instruments such as questionnaires or structured interviews. The data obtained is analysed using statistical techniques, and the results of this study are generalizable or can be generalised to a wider population.

Research Location
This research was conducted at Bank Jatim Madiun Branch, which is located at Jl. Dr Sutomo No. 46, Madiun City, East Java. The selection of this location is based on the consideration that Bank Jatim is one of the regional development banks that is undergoing massive digital transformation and experiencing various dynamics of organisational change, both in terms of work systems, technology, and human resources.

Research Time
This research was conducted from January 2025 to July 2025. The series of research activities started from the preparation of instruments, data collection through questionnaire distribution, to the data analysis process and preparation of the final report. This time selection is adjusted to the availability of respondents and the operational schedule of Bank Jatim Madiun Branch so that the research process can run effectively and efficiently.

Population, Sample and Sampling Technique
Population
Population is the whole element in research including objects and subjects with certain characteristics and characteristics (Amin et al., 2023). The population in this study were all employees of Bank Jatim Madiun Branch with 220 employees.

Sample
The sample is defined as part of the population that is used as a source of data in a study (Amin et al., 2023). In other words, the sample is a representation of the population used to obtain relevant and generalisable information. In this study, the sample was permanent employees of Bank Jatim Madiun Branch. The sample criteria used in this study are:
1. Employees with permanent employee status
2. Have worked at Bank Jatim for at least one year.

These criteria are set so that respondents have sufficient experience and understanding of organisational conditions, especially related to leadership practices, *reward* systems, and ongoing organisational changes.

The sampling technique in this study used *purposive sampling* method. According to Sugiyono (2018), *purposive* sampling is a sampling technique with certain considerations or criteria, which aims to obtain data that is more relevant, on target, and representative of the phenomenon under study. By using *purposive sampling*, researchers can focus more on selecting individuals who are in accordance with research needs, especially those who have direct involvement with leadership dynamics, the *rewards* system, and readiness for organisational change.

This study uses a Likert scale as a measurement scale to assess respondents' perceptions of the variables studied, namely transformational leadership, rewards, readiness for change, and employee performance. The Likert scale is a scale commonly used in quantitative research because it is able to measure individual

attitudes, opinions, and perceptions of an object in a graded manner. Each statement item in the questionnaire will be measured using a 5-point scale, with the following ranges:

Table 1. Basis for Likert Scale Interpretation

Score	Category
1	Strongly Disagree
2	Disagree
3	Neutral / Undecided
4	Agree
5	Strongly Agree

Source: Sugiyono (2018)

The use of this scale allows researchers to make quantitative measurements of respondents' tendencies to respond to each item, so that data can be analysed statistically to test the proposed hypothesis.

Definition of Concepts and Operational Variables

Variable Concepts

This study uses variable concepts from several experts as references, the concepts used from each variable are as follows:

1. Employee Performance
   Performance refers to the achievement of work results that include aspects of quality and quantity, which are obtained by an employee in carrying out the duties and responsibilities that have been assigned to him.
2. Transformational Leadership
   Transformational leadership is a leadership style that emphasises the leader's attention to the problems faced by his followers, as well as to their individual development needs, by providing strong motivation and encouragement so that followers are able to achieve the goals set.
   2. *Rewards*
   Rewards are defined as a form of recognition, both financial and non-financial, given by the organisation to employees for their work contributions and achievements, which aims to increase motivation, satisfaction, and maintain and encourage optimal performance.
3. Change Readiness
   Change readiness is defined as workers' beliefs that employees are able to implement the proposed change (*self-efficacy*), the change is appropriate for the organisation (*appropriateness*), leaders are committed to the change (*management support*), and the change will benefit organisational members (*personal benefit*)

4. Empirical Findings/Results

Based on the results of distributing questionnaires to 160 respondents at Bank Jatim Madiun City, a description of the characteristics of the respondents who have been studied is obtained. Respondent characteristics are determined based on gender, education, domicile, age, and length of work. The following is an explanation of the characteristics of the respondents:

Table 2. Characteristics of Respondents

Characteristics of Respondents		Frequency (Person)	Percentage (%)
Gender	Male	70	43,8%
	Female	90	56,2%
Total		160	100%
Education	HIGH SCHOOL	14	8,8%
	Diploma	57	35,6%
	Bachelor's degree	79	49,4%
	Postgraduate	10	6,3%
Total		160	100%
Age	20 - 29 years	42	26,3%
	30 - 39 years old	61	38,1%
	40 - 49 years old	45	28,1%
	≥ 50 years old	12	7,5%
Total		160	100%
Length of Service	1 - 5 years	18	11,3%
	> 5 - 10 years	73	45,6%
	> 10 - 15 years	69	43,1%
Total		160	100%

Source: Bank Jatim Madiun Branch Employee Data (2025)

In terms of age, the most respondents are in the age range of 30 to 39 years, as many as 61 people or 38.1%. The age group of 40 to 49 years old is in second place with 45 people or 28.1%, followed by 20 to 29 years old as many as 42 people or 26.3%, and the remaining 50 years old and above as many as 12 people or 7.5%. This age distribution indicates that the majority of respondents are at a productive age and mature in work experience, which has the potential to influence how they respond to organisational change.

Meanwhile, based on length of service, out of a total of 160 respondents, the majority have worked between more than 5 to 10 years, as many as 73 people or 45.6%. Followed by respondents who have worked for more than 10 to 15 years as many as 69 people or 43.1%, and only 18 people or 11.3% who have worked between 1 to 5 years. This finding indicates that most employees have had a long enough work experience, allowing them to have a deeper understanding of organisational culture, work systems, and changes that occur in the organisation.

Inferential Statistical Analysis

In accordance with the results of the data collection, the results of the information processing obtained can be presented as shown below.

Validity Test

Testing the validity of instruments is an important stage in quantitative research, especially when data collection is carried out through questionnaire instruments. Instrument validity indicates the extent to which an instrument is able to measure what it is supposed to measure (construct validity) and accurately represent variables. A

valid instrument will produce data that is correct, accurate, and reflects empirical reality in the field. In conducting validity testing on this research instrument, Convergent Validity and Discriminant Validity were used.

The outer model analysis in SmartPLS aims to assess the extent to which indicators are able to accurately represent the constructs being measured. This test ensures the suitability of latent variables with their reflective indicators. An indicator is said to have a high contribution if its correlation value with the construct is above 0.7, indicating that the indicator significantly reflects the variable in question.

Convergent Validity (Outer Loadings)
Convergent Validity testing was conducted to assess the extent to which each indicator consistently reflects the latent construct being measured. Convergent validity can be seen through the outer loading or loading factor values of each indicator relative to its variable. According to , an indicator is considered valid if it has a loading factor value above 0.7. The results of the convergent validity test in this study were obtained through analysis using SmartPLS software, as shown in Table 3 below:

Tabel 3. Outer Loadings Valid

Variable	Item	Outer Loading	Description
Transformational Leadership	X1.1	0.744	Valid
	X1.2	0.811	Valid
	X1.3	0.719	Valid
	X1.4	0.729	Valid
	X1.5	0.836	Valid
	X1.6	0.814	Valid
	X1.7	0.805	Valid
	X1.8	0.727	Valid
	X1.9	0.837	Valid
	X1.10	0.742	Valid
	X1.11	0.802	Valid
	X1.12	0.718	Valid
	X1.13	0.735	Valid
	X1.14	0.826	Valid
	X1.15	0.817	Valid
	X1.16	0.812	Valid
	X1.17	0.730	Valid
	X1.18	0.829	Valid
	X1.19	0.811	Valid
Rewards	X2.1	0.776	Valid
	X2.2	0.833	Valid
	X2.3	0.777	Valid
	X2.4	0.825	Valid

	X2.5	0.713	Valid
	X2.6	0.768	Valid
	X2.7	0.761	Valid
	X2.8	0.828	Valid
	X2.9	0.742	Valid
	X2.10	0.736	Valid
	X2.11	0.771	Valid
	X2.12	0.731	Valid
Readiness for Change	Z.1	0.810	Valid
	Z.2	0.802	Valid
	Z.3	0.810	Valid
	Z.4	0.801	Valid
	Z.5	0.789	Valid
	Z.6	0.760	Valid
	Z.7	0.735	Valid
	Z.8	0.826	Valid
	Z.9	0.777	Valid
	Z.10	0.763	Valid
	Z.11	0.772	Valid
	Z.12	0.767	Valid
Employee Performance	Y1	0.899	Valid
	Y2	0.765	Valid
	Y3	0.914	Valid
	Y4	0.707	Valid
	Y.5	0.829	Valid
	Y.6	0.709	Valid
	Y.7	0.850	Valid
	Y.8	0.748	Valid
	Y.9	0.831	Valid

Source: PLS Output Results (2025)

Based on Table 3 above, it can be seen that all items have outer loading values greater than 0.7 (Valid), so it can be concluded that all items used in each variable have performed their measuring functions appropriately, in accordance with the measuring instruments used in the study, and all items are declared valid.

Discriminant Validity

Discriminant validity testing aims to evaluate the extent to which a statement item accurately reflects the construct being measured by comparing the relationships between items.

In this study, discriminant validity was analysed using the cross-loading factor method. A measurement model can be said to have good discriminant validity if each indicator shows the highest correlation with its original construct compared to the correlation with other constructs in the model. The cross-loading values in this study are presented in Table 4 below.

Tabel 4. Cross Loadings

Item	Transformational Leadership	Rewards	Readiness for Change	Employee Performance
X1.1	0.744	0.260	0.236	-0.053
X1.2	0.811	0.256	0.293	-0.067
X1.3	0.719	0.164	0.116	-0.059
X1.4	0.729	0.216	0.139	-0.084
X1.5	0.836	0.225	0.268	-0.045
X1.6	0.814	0.251	0.257	-0.019
X1.7	0.805	0.282	0.197	-0.059
X1.8	0.727	0.331	0.140	0.025
X1.9	0.837	0.289	0.185	-0.044
X1.10	0.742	0.261	0.228	-0.054
X1.11	0.802	0.270	0.303	-0.059
X1.12	0.718	0.172	0.123	-0.072
X1.13	0.735	0.203	0.128	-0.095
X1.14	0.826	0.199	0.245	-0.058
X1.15	0.817	0.240	0.246	-0.021
X1.16	0.812	0.281	0.200	-0.070
X1.17	0.730	0.344	0.158	0.004
X1.18	0.829	0.262	0.161	-0.056
X1.19	0.811	0.235	0.123	-0.101
X2.1	0.315	0.776	0.269	0.059
X2.2	0.115	0.833	0.439	0.141
X2.3	0.306	0.777	0.272	0.055
X2.4	0.267	0.825	0.433	0.170
X2.5	0.261	0.713	0.280	0.095
X2.6	0.168	0.768	0.172	0.035
X2.7	0.302	0.761	0.284	-0.063
X2.8	0.296	0.828	0.329	0.109
X2.9	0.315	0.742	0.232	0.013

X2.10	0.201	0.736	0.219	0.054
X2.11	0.266	0.771	0.213	-0.029
X2.12	0.277	0.731	0.262	-0.017
Z.1	0.231	0.214	0.810	0.152
Z.2	0.205	0.425	0.802	0.168
Z.3	0.235	0.221	0.810	0.148
Z.4	0.205	0.424	0.801	0.159
Z.5	0.253	0.265	0.789	0.106
Z.6	0.130	0.228	0.760	0.056
Z.7	0.149	0.254	0.735	0.094
Z.8	0.206	0.355	0.826	0.207
Z.9	0.247	0.293	0.777	0.068
Z.10	0.260	0.277	0.763	0.056
Z.11	0.179	0.345	0.772	0.134
Z.12	0.247	0.271	0.767	0.089
Y1	-0.068	0.059	0.140	0.899
Y2	0.002	0.104	0.117	0.765
Y3	-0.087	0.080	0.190	0.914
Y4	-0.042	0.029	0.043	0.707
Y5	-0.039	0.082	0.136	0.829
Y6	0.019	0.071	0.033	0.709
Y7	-0.134	0.018	0.120	0.850
Y8	0.051	0.078	0.106	0.748
Y9	-0.035	0.120	0.145	0.831

Source: PLS Output Results (2025)

Based on the cross-loading results in Table 4 above, it can be seen that the correlation value of an item with its own variable is greater when compared to other variables. Therefore, it can be said that the results of the discriminant validity test of all items in the research instrument are valid.

Reliability Test

The reliability test was conducted to show the level of stability and accuracy of a measuring instrument used to determine the extent to which the measurement is relatively consistent when retested. The instrument reliability test was used to determine the extent to which the respondents' answers would be consistent and stable if retested. The reliability test in this study used Cronbach's alpha, composite reliability, and AVE values.

An instrument can be considered reliable if it has Cronbach's alpha and composite reliability values above 0.7 (> 0.7) and AVE values above 0.5. Cronbach's alpha, composite reliability, and AVE values were used to determine whether the statement items were reliable or not in Table 5.

Table 5. Cronbach Alpha, Composite Reliability dan AVE

Variabel	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Transformational Leadership	0.936	0.974	0.944	0.654
Rewards	0.965	0.975	0.968	0.613
Readiness for Change	0.944	0.951	0.951	0.616
Performance	0.940	0.964	0.947	0.597

Source: PLS Output Results (2025)

Table 5 shows that Cronbach's Alpha values for each variable are greater than 0.7. Therefore, it can be stated that the variables used, namely transformational leadership (0.936), rewards (0.965), readiness for change (0.944), and performance (0.940), are reliable. In addition, the composite reliability values of each variable, including transformational leadership at 0.944, rewards at 0.968, readiness for change at 0.951, and performance at 0.947, indicate that the composite reliability values of each variable used are greater than 0.7, meaning that these variables fall into the high reliability category.

Discriminant validity using the Average Variance Extracted (AVE) value shows that each variable has an AVE value greater than 0.5, indicating that the instruments used in this study are valid and can be used to regulate the variables in the study.

Structural Model Analysis (Inner Model)

The inner model analysis aims to test the causal relationship between latent variables in the research model, which includes the direction and strength of the influence between variables, statistical significance, and the coefficient of determination (R^2). This structural model was analysed using the Partial Least Square-Structural Equation Modelling (PLS-SEM) approach with the help of SmartPLS software.

In this study, the exogenous variables include transformational leadership and rewards, while the endogenous variables consist of readiness for change and employee performance. The analysis results produced several structural relationships between variables, each with path coefficients and significance values (p-values) as follows:

$Z = 2{,}278X1 + 4{,}325X2 + \varepsilon$; R2 = 0,601

$Y = 1{,}224X1 + 0{,}557X2 + 2{,}024\ Z + \varepsilon$; R2 = 0,664

Description:
X1 : Transformational Leadership
X2 : Rewards
Z : Readiness for Change
Y : Employee Performance
ε (epsilon) : Residual model structural

The tests to be conducted for inner model measurement consist of the coefficient of determination using R square and predictive relevance using Q square.

Coefficient of Determination (RSquare)
The coefficient of determination is used in research to indicate the magnitude of the influence of exogenous variables on endogenous variables. The R Square measurement in this study is shown in Table 6, as follows:

Table 6. Coefficient of Determination

Variable	R Square
Readiness for Change	0,601
Employee Performance	0,664

Source: PLS Output Results (2025)

Table 6 shows the coefficient of determination (R-square) obtained from the first model, which is the effect of variable X1 (Transformational Leadership) and X2 (Rewards) on variable Z (Change Readiness) is 0.601, indicating that variable Z (Change Readiness) can be explained by variables X1 (Transformational Leadership) and X2 (Rewards) by 60.1%, with the remaining 39.9% influenced by other variables outside the scope of this study. The coefficient of determination (R-square) obtained from the second model is the influence of variable X1 (Transformational Leadership) and X2 (Rewards) on variable Y (Employee Performance) is 0.664, so that variable Y (Employee Performance) can be explained by variable X1 (Transformational Leadership) and X2 (Rewards) by 66.4%, with the remaining 33.6% contributed by other variables not included in this research model.

Predictive Relevance (Q^2)
Predictive Relevance aims to measure how well the results produced by the research model are. The following is the calculation of Q^2:

$Q2 = 1 – (1 – R_1^2) (1 – R_2^2)$
$= 1 – (1 – 0,601) (1 – 0,664)$
$= 0,866$

Based on the Q^2 calculation results above, it shows that the research model has a Q2 value of 0.866 or 86.6%, where employee performance variables can be predicted by transformational leadership, rewards, and readiness for change variables, while the remaining 13.4% is the contribution of other variables not included in this research model. Based on the calculation using the Q^2 equation, this model also has a fairly high predictive relevance, as the value falls within the range of 0.5 and 1, where the closer the value is to 1, the better the model is.

Goodness of Fit (GoF)
The Goodness of Fit Model (GoF) calculation is used to measure the suitability or accuracy of a research model. The GoF value is measured based on the AVE value and the R2 value. Basically, a model with a higher fit is better or more valid. The GoF assessment based on SmartPls uses the square root of the average extracted variance and the coefficient of determination. GoF values range from 0 to 1. There are three criteria for measuring GoF model values: 0.36 (strong or high GoF); 0.25 (medium

GoF); and 0.10 (low or weak GoF). The results of the Goodness of Fit measurement in this research model are shown as follows:

Table 7. Goodness of Fit (GoF) Evaluation Results

Variable	R2	AVE
X1 (Transformational Leadership)	-	0.654
X2 (Rewards)	-	0.613
Z (Readiness for Change)	0,601	0.616
Y (Employee Performance)	0,664	0.597

Source: PLS Output Results (2025)

The calculation of the Goodness of Fit (GoF) value is as follows: the average AVE is 0.620 and the average R^2 is 0.632, resulting in a GoF value of $\sqrt{(0.620 \times 0.632)} = 0.498$. Based on this result, the GoF value of 0.498 indicates that the overall research model is considered strong or feasible, as it exceeds the threshold of 0.36, which suggests a good model fit.

Hypothesis Testing Results

This section evaluates the coefficients or parameters that indicate the influence of one latent variable on another latent variable. The results obtained with the help of SmartPLS software are as follows:

Table 8. Direct and Indirect Effect Hypothesis Testing

	Hypothesis	Path Coefficient	T statistics	p-value	Decision	
H1	Transformational -> Change	0,176	2,278	0,023	Significant	Accepted
H2	Rewards -> Change	0,343	4,325	0,000	Significant	Accepted
H3	Transformational Leadership -> Employee Performance	-0,117	0,991	0,322	Not significant	Rejected
H4	Rewards -> Employee Performance	0,141	1,191	0,234	Not significant	Rejected
H5	Readiness for Change -> Employee Performance	0,180	2,024	0,044	Significant	Accepted
H6	Transformational Leadership -> Readiness for Change -> Employee Performance	0,033	2,001	0,046	Significant	Accepted
H7	Rewards -> Readiness for Change -> Employee Performance	0,188	2,355	0,019	Significant	Accepted

Source: PLS Output Results (2025)

Based on the results of the direct hypothesis testing, it can be concluded that hypotheses H1, H2, and H5 are accepted, as they fulfill the criteria of having p-values

below 0.05, t-statistic values above the critical value of 1.96, and path coefficients that align with the expected direction of influence. H1 confirms that transformational leadership significantly affects readiness for change, with a path coefficient of 0.176, a t-statistic of 2.278, and a p-value of 0.023. This suggests that employees' perceptions of inspirational and supportive leadership are positively associated with their willingness to embrace change. H2 demonstrates that rewards also significantly influence readiness for change, with a coefficient of 0.343, a t-statistic of 4.325, and a p-value of 0.000. This implies that both financial and non-financial rewards enhance employees' openness to change. Similarly, H5 is accepted, indicating that readiness for change positively and significantly impacts employee performance ($t = 2.024$; $p = 0.044$), which means employees who are more prepared for change tend to perform better.

On the other hand, hypotheses H3 and H4 are rejected, as they do not meet the statistical significance threshold—H3 reports a t-statistic of 0.991 and p-value of 0.322, and H4 shows a t-statistic of 1.191 and p-value of 0.234—suggesting that neither transformational leadership nor rewards directly affect employee performance. Interestingly, indirect effect tests support hypotheses H6 and H7, which reveal that readiness for change mediates the relationship between both transformational leadership ($t = 2.001$; $p = 0.046$) and rewards ($t = 2.355$; $p = 0.019$) on employee performance. These findings suggest that while the direct effects of leadership and rewards on performance may be insignificant, their influence becomes meaningful when mediated through employees' readiness for change. Therefore, fostering change readiness acts as a crucial mechanism for translating leadership and reward systems into improved performance outcomes.

5. Discussion

The results of this study indicate that transformational leadership significantly influences change readiness among employees at Bank Jatim Madiun Branch. This aligns with the findings of Gao et al. (2020), who emphasized the critical role of inspirational motivation in shaping employee confidence in facing organizational challenges. Among the indicators, the statement "My leader makes me feel confident in facing challenges" received the highest loading factor, suggesting that psychological support from leaders is central to employee perceptions of transformational leadership. This supports the theoretical framework of Bass, as cited by Eliyana et al. (2019), who argued that transformational leaders inspire and motivate followers by articulating a compelling vision and demonstrating individualized consideration. The leadership style at Bank Jatim has evidently succeeded in fostering a positive psychological climate, which is crucial for readiness to change, particularly in a banking sector undergoing rapid digital and operational transformation.

These findings are further reinforced by Katsaros et al. (2020), who concluded that transformational leadership fosters readiness to change by enhancing trust and reducing resistance. Qalati et al. (2022) also confirmed that transformational leadership increases change readiness through improved self-efficacy and a positive

outlook on organizational transformation. Theoretically, this reflects the organizational readiness model proposed by Abdel-Ghany (2014), which posits that readiness stems from collective beliefs in the necessity and feasibility of change—beliefs often shaped by leadership behaviors.

In terms of rewards, the study revealed a significant influence on change readiness, especially through non-financial rewards. Recognition, appreciation, and a sense of accomplishment emerged as primary drivers of employee motivation. This finding corroborates those of Amalia et al. (2023) and Siswanto et al. (2021), who emphasized the psychological impact of non-monetary rewards on employee engagement and change receptiveness. Through the lens of Maslow's hierarchy of needs, as interpreted by Herzberg et al. (2017), rewards satisfy both safety and esteem needs, thereby enhancing intrinsic motivation and openness to change. Kumari et al. (2021) also found that fair and meaningful rewards strengthen positive employee perceptions of the organization and support psychological readiness for transformation. In this context, rewards at Bank Jatim function not only as motivational tools but also as psychological reinforcers that frame organizational change as an opportunity rather than a threat.

Interestingly, the direct effect of transformational leadership on employee performance was found to be statistically insignificant. This contrasts with several prior studies but is in line with findings by Zaman et al. (2020), who reported that the impact of leadership on performance is often mediated by psychological or contextual variables. In hierarchical and target-driven work environments such as banking, the influence of visionary leadership may be less directly observable in performance metrics, especially in the short term. Additionally, the demographic composition of the workforce may moderate this relationship. With a majority of respondents being female (56.2%), the findings echo those of Newman et al. (2017) and Mangkunegara (2021), who noted that female employees often prioritize relational and stability factors over visionary and long-term strategic aspects of leadership. Consequently, transformational leadership may not directly translate into performance improvements unless channeled through mediating variables such as readiness to change.

Similarly, rewards were also found to have no significant direct effect on employee performance. This supports the conclusions of Kaur Sidhu and Nizam (2020) as well as Ketut et al. (2019), who argued that rewards must be relevant and perceived as fair to be effective motivators. According to reinforcement theory, as cited in Herzberg et al. (2017), the motivational power of rewards depends heavily on their alignment with employee expectations. If rewards are viewed as inadequate or misaligned, they may fail to drive performance and can even demotivate employees. Salas-Vallina et al. (2021) and Rinny et al. (2020) further asserted that poorly designed reward systems can contribute to dissatisfaction and hinder performance outcomes, especially when employees perceive a disconnect between effort and recognition.

In contrast, change readiness showed a significant and positive impact on employee performance. This finding is consistent with the studies by Trisnaningsih and

Ratnawati (2022), who found that employees with a high level of psychological readiness for change are more likely to demonstrate proactive behavior and strong performance, especially in dynamic organizational contexts. Sonnentag and Frese (2002) as well as Colquitt et al. (2019) emphasized that readiness reflects cognitive and emotional preparedness, which directly influences how employees approach challenges, adapt to change, and sustain productivity.

Furthermore, this study confirms the mediating role of change readiness in the relationship between transformational leadership and employee performance. Although transformational leadership did not have a direct impact on performance, its influence becomes significant when channeled through change readiness. This supports the full mediation model proposed by Katsaros et al. (2020) and Jensen and Bro (2018), who suggested that transformational leadership builds motivational and cognitive resources that manifest in performance only when employees are mentally prepared to embrace change. In essence, readiness to change acts as the psychological mechanism through which leadership exerts its influence on employee outcomes.

Finally, change readiness also mediates the relationship between rewards and performance. The results demonstrate that while rewards alone may not directly enhance performance, they contribute significantly when they foster a mindset open to change. This aligns with the findings of Siswanto et al. (2021) and Kumari et al. (2021), who highlighted that rewards must be internalized and perceived as meaningful to generate lasting motivational effects. Abdel-Ghany (2014) emphasized that perceived organizational support, reflected in the fairness and quality of rewards, enhances change readiness and, in turn, leads to higher performance. Similarly, Shafi et al. (2020) noted that reward systems are most effective when they create a psychological environment conducive to growth and adaptability.

In summary, the results of this study provide valuable insights into the mechanisms that drive employee performance in organizational change contexts. While transformational leadership and rewards may not directly affect performance, their impact becomes evident through the mediating role of change readiness. This underscores the importance of fostering a psychologically prepared workforce, particularly in sectors facing continuous transformation such as banking.

6. Conclusions

Based on the results of the analysis and discussion, this study draws several important conclusions. First, the four research variables—transformational leadership, rewards, change readiness, and employee performance—are all rated in the high category. This suggests that the organization has successfully fostered a conducive work environment characterized by inspirational leadership, an effective and motivating reward system, strong readiness for change, and optimal performance. This finding affirms that the synergy between leadership, rewards, and readiness for change plays a strategic role in enhancing overall employee performance. Second, transformational leadership has a positive and significant effect on change readiness. This indicates that

when employees perceive their leaders as exhibiting transformational behaviors—such as inspirational motivation, idealized influence, intellectual stimulation, and individualized consideration—their readiness to face organizational changes increases. Leaders who are able to inspire, empower, and build trust become pivotal actors in facilitating successful change.

Third, rewards significantly influence change readiness. Both financial and non-financial rewards increase employee motivation and commitment in adapting to change. When rewards are perceived as fair and sufficient—fulfilling needs from basic to esteem levels as outlined in Maslow's hierarchy—employees are more likely to embrace and actively engage in change processes. Fourth, transformational leadership does not have a direct effect on employee performance. This suggests that while leadership is inspirational and visionary, it cannot directly boost performance without the support of mediating factors. The influence of leadership on performance occurs indirectly, specifically through employees' readiness for change. Fifth, rewards also do not have a direct effect on performance. Although rewards remain an important factor in work motivation, they are insufficient on their own to significantly enhance performance without the presence of psychological readiness and employee commitment to change. Sixth, change readiness has a positive and significant influence on employee performance. Employees with high readiness are more likely to demonstrate adaptive, proactive, and high-performing behaviors, especially in organizations undergoing transformation.

Seventh, change readiness mediates the relationship between transformational leadership and employee performance. This means that leadership behaviors—such as inspiring vision, individualized support, and encouragement of creativity—translate into improved performance only when employees are psychologically prepared to face change. Finally, change readiness also mediates the relationship between rewards and employee performance. In this context, the reward system becomes truly effective only when employees are ready to adapt to new dynamics and embrace organizational change. Thus, readiness to change is a crucial psychological mechanism through which both leadership and rewards influence performance outcomes.

From a theoretical perspective, several suggestions emerge from this study. Future researchers are encouraged to include other variables such as employee engagement, organizational commitment, or job satisfaction as potential mediating or moderating variables in the model that links leadership, rewards, and performance. Additionally, replicating this research in different sectors or geographical regions is necessary to improve the generalizability of the findings and to test the consistency of the model in various organizational contexts. From a practical standpoint, several recommendations are directed at the management of Bank Jatim Madiun Branch. First, leadership development efforts should prioritize strengthening the intellectual stimulation dimension by encouraging open discussion, innovation, and active employee involvement in decision-making processes. Second, the reward system should be evaluated to ensure financial incentives are varied, fair, and tied to

measurable achievements, while also mitigating any potential negative effects such as unhealthy competition or demotivation. Third, in regard to change readiness, management should regularly organize training, coaching, and technological adaptation programs to enhance employees' confidence and competence, particularly in response to ongoing digital transformation. Lastly, organizational leaders are advised to adopt leadership styles that are not only inspirational but also responsive to the psychological needs of employees. Given that a majority of respondents in this study are women, who tend to place higher value on job stability and emotional recognition, leadership approaches that emphasize empathy and psychological support are especially important.

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