
**The Influence of Transformational Leadership on Employee Engagement:
The Mediating Role of Psychological Empowerment
(A Study of Bank BNI Employees in Yogyakarta Region)**

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Abstract

The current study investigates the effect of transformational leadership on employee engagement through the mediating role of psychological empowerment in Bank BNI employees in the Yogyakarta region. It is based on the Constructive/Developmental Personality Theory and contributes to organizations' critical need to engage employees in today's competitive service industry (Spector et al., 2001). This study was a quantitative survey with data collected from 300 employees of Bank BNI located in Yogyakarta through an online survey using standardized questionnaires. The relationships between variables were examined using Structural Equation Modeling (SEM) with SmartPLS. The results suggested that transformational leadership had a significant and positive influence on both psychological empowerment ($\beta = 0.583$, $p < 0.001$) and engagement ($\beta = 0.899$, $p < 0.001$). Psychological empowerment also significantly impacted engagement ($\beta = 0.213$, $p < 0.002$). The study's findings also indicated that psychological empowerment partially mediated the relationship between transformational leadership and employee engagement ($\beta = 0.124$, $p < 0.007$). The findings indicate that transformational leaders can enhance employee engagement, directly and indirectly, through psychological empowerment. This study contributes to the human resource management literature by illustrating the valuable nature of empowering or strengthening leadership practices in organizations in the banking sector. Practical implications emphasize the importance of organizations developing competencies in transformational leadership and creating empowering work environments, which benefits organizations through improved employee engagement and organizational performance.

Keywords: transformational leadership, employee engagement, psychological empowerment, banking sector, mediation analysis

1. Introduction

1.1 Introduction to the Problem

The contemporary economy has become increasingly service-oriented, leading many to claim that we live in a service society. Customers now have more choices than ever when it comes to services. Because of this, the service sector has become very competitive. Because of this, manufacturing companies cannot use the same management styles and ideas as service sector companies. Employees are the most important part of service organizations because there is little time between when a service is made and when it is delivered. So, companies in the service sector need workers who can take charge, work independently, enjoy their jobs, and feel like they are making a difference in the company's operations (Kreitner & Kinicki, 2001).

Both businesses and people need to work on improving work engagement. Since the company wants its employees to be healthy and grow, it is strongly suggested to implement policies to encourage work engagement. Hayati and Faisal (2015) asserted that for modern organizations to endure and prosper in a perpetually evolving environment, they require "healthy" employees and engaged employees who are energetic, committed, and fully immersed in their work. To deal with this problem, many companies in the manufacturing and service sectors have started implementing policies or strategies to boost employee engagement.

Kahn (1990) asserts that an engaged workforce constitutes a competitive advantage for an organization due to its correlation with profitable outcomes. This can happen because engaged employees keep working toward the organization's goals even when things are not going well (Kesari et al., 2018).

1.2 Importance of the Problem

Research on employee engagement related to performance has been conducted by Harter et al. (2002). When looking at the performance of all the business units in a company, the results showed that business units with employee engagement levels above the median value had a 70% higher success rate than those with employee engagement levels below the median value. Meanwhile, measurements taken from different companies showed that business units with employee engagement levels above the median value have a 103% higher success rate than those with employee engagement levels below the median value.

Kaliannan and Adjovu (2015) wrote about a Harvard Business Review (HBR) study that showed that employee engagement became the focus of senior executives, with 2014 being the year of the employee. HBR found that 71% of people believe that effective employee engagement is important for the success of any business. This was based on data from companies around the world that do well. HBR also found that highly engaged workforces have a big effect on lowering hiring and retention costs, helping the company grow, encouraging new ideas, improving the bottom line, and boosting productivity. Tower Watson also did a study on 50 companies over a year. They found that companies with highly engaged employees had a 19% rise in operating income and a 28% rise in earnings per share (EPS).

These research findings demonstrate that fostering high employee engagement is crucial and should be a primary focus for all organizations. Studies have shown that high levels of employee engagement can boost productivity by making more money and making the company more efficient by lowering recruitment costs because of low turnover rates.

1.3 Relevant Scholarship

Leadership is a significant factor that influences the workplace atmosphere and employees' perceptions of their tasks (Christian et al., 2011). James MacGregor Burns first proposed the idea of leadership in 1978. Macey and Schneider (2008) asserted that leaders who articulate clear expectations, demonstrate fairness, and recognize exemplary employee performance can enhance employee engagement by fostering a sense of attachment to their work.

Carasco-Saul et al. (2015) conducted research indicating that positive leadership styles, owing to their motivational characteristics, can enhance employee work engagement in the short term; however, they may yield adverse effects in the long term, as employees may perceive a sense of control when perpetually challenged and motivated by their managers. In their analysis of leadership styles and employee work engagement, they uncovered highly consistent results across most studies, indicating that transformational leadership is the prevailing leadership style.

The Constructive/Developmental Personality Theory is the basis for the transformational leadership style. Transformational leaders who establish explicit expectations, commend employees for exemplary performance, demonstrate fairness, and exhibit genuine concern for their workforce can foster a sense of organizational commitment and psychological safety among employees (Monje Amor et al., 2020). Transformational leaders modify their followers' aspirations, identity, needs, preferences, and values to facilitate attaining their full potential (Lowe et al., 1996).

Avolio et al. (2004) assert that transformational leaders engage followers in conceptualizing a desirable future and motivate them to dedicate themselves to its attainment. Transformational leaders foster team cohesion through enthusiasm, elevated moral standards, integrity, and optimism. They impart significance and challenges to their followers' tasks, enhancing their independence, self-confidence, purpose, and resolve.

One modern way that managers try to boost productivity is by getting employees more committed to the company (Allameh et al., 2012). Leaders are important for creating workplaces that give people power and can help employees and businesses (Cummings et al., 2010). Empowered employees will enhance organizational contributions through heightened productivity and adaptability to change (Greasley et al., 2008).

1.4 Hypotheses and Research Design

Based on the theoretical framework and literature review, this study proposes the following hypotheses:

- H1: Transformational leadership positively and significantly influences employee engagement.
H2: Transformational leadership positively and significantly influences psychological empowerment.
H3: Psychological empowerment positively and significantly influences employee engagement.
H4: Psychological empowerment serves as a mediator in the positive correlation between transformational leadership and employee engagement.

The research design utilizes a quantitative methodology, specifically structural equation modeling. It evaluates the proposed hypotheses and investigates the mediating function of psychological empowerment in the relationship between transformational leadership and employee engagement.

2. Method

2.1 Research Design and Approach

This research employs a quantitative methodology featuring an associative causal design to investigate the causal relationships among variables. The study examines employee engagement levels facilitated by transformational leadership, evaluating the mediating effect of psychological empowerment among PT Bank Negara Indonesia (Persero) Tbk employees in the Yogyakarta Regional Office.

2.2 Participants

This study's population comprises 1,198 employees of PT Bank Negara Indonesia (Persero) Tbk in the Yogyakarta region. The sample size was calculated using the Isaac and Michael formula, resulting in a minimum of 300 respondents. The sampling method was simple random sampling to obtain a proportional sample according to the number of employees in each Bank BNI branch office in the Yogyakarta region.

2.3 Sampling Procedures

Simple random sampling was employed to select participants from the population without considering strata within the population. This method was chosen to obtain a proportional number of samples according to the number of employees in each Bank BNI office in the Yogyakarta region. The research was conducted in June 2021 across various business units and supporting units under the supervision of Bank BNI Yogyakarta Regional Office.

2.3.1 Sample Size and Characteristics

The final sample consisted of 300 employees with the following characteristics: 62% were female employees, 37.3% were aged 26-35, 37.3% had a diploma education, and 96.7% held functional positions. All participants were permanent employees of Bank BNI with at least one year of work experience.

2.3.2 Measures and Instruments

Data collection was conducted using structured questionnaires with validated instruments:

Transformational Leadership: Measured using the instrument developed by Carless and Alexander (2000), consisting of 21 items covering seven dimensions: vision, staff development, supportive leadership, empowerment, innovative thinking, leading by example, and charismatic leadership.

Psychological Empowerment: Measured using Spreitzer's (1995) instrument, consisting of 12 items covering four dimensions: meaning, self-determination, competence, and impact.

Employee Engagement: Measured using the Utrecht Work Engagement Scale (UWES) by Schaufeli and Bakker (2003), consisting of 9 items covering three dimensions: vigor, dedication, and absorption.

All instruments used a 7-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree).

2.3.3 Validity and Reliability Testing

The instruments underwent validity and reliability testing using 87 respondents from a similar organization. Convergent validity was assessed using factor loadings (> 0.5) and Average Variance Extracted ($AVE > 0.5$). Discriminant validity was evaluated using correlation matrix analysis. Reliability was tested using Cronbach's Alpha (> 0.6) and Composite Reliability (> 0.7).

2.3.4 Data Analysis

The data analysis used Structural Equation Modeling (SEM) with SmartPLS 3.0. It included descriptive statistics, normality testing using the Kolmogorov-Smirnov test, linearity testing, multicollinearity testing, and hypothesis testing through path analysis. The mediating effect was tested using the Sobel test and bootstrap procedures.

3. Results

3.1 Participant Characteristics

Table 1. Participant Characteristics (N=300)

Characteristic	Category	Frequency	Percentage (%)
Gender	Female	186	62.0
	Male	114	38.0
Age	<25 years	76	25.3
	26-35 years	112	37.3
	36-45 years	86	28.7
	>45 years	26	8.7
Education	High School	87	29.0
	Diploma	112	37.3
	Bachelor/Graduate	101	33.7
Position	Functional	290	96.7
	Structural	10	3.3

The characteristics of the participants provide significant insights regarding the sample's composition. The fact that 62% of the employees are women shows that this is a common trend in the Indonesian banking sector, where women take on more and more roles at all levels of the organization. The age distribution indicates that the largest group of participants (37.3%) is between 26 and 35, the most productive age group. This age group usually has a lot of career motivation and is open to being influenced by leaders, which makes them great subjects for studying the effects of transformational leadership.

The distribution of educational backgrounds shows that the workforce is well-educated, with 70.7% having at least a diploma. This educational profile indicates that employees possess the cognitive abilities to respond effectively to transformational leadership behaviours, such as intellectual stimulation and inspirational motivation. The fact that 96.7% of the participants are in functional roles instead of structural leadership roles means that the study can get followers' views instead of leaders. This is important for understanding how transformational leadership affects people from their point of view.

3.2 Descriptive Statistics

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean (M)	Std. Deviation (SD)
Transformational Leadership	300	2.29	5.00	4.25	0.46
Psychological Empowerment	300	2.25	5.00	3.77	0.60
Employee Engagement	300	2.00	5.00	4.17	0.59

The descriptive statistics give us useful information about the study variables' central tendencies and how they change over time. Transformational leadership has the highest mean score (M = 4.25, SD = 0.46), which means that most employees think their leaders show transformational behaviors at an above-average level. The relatively low standard deviation indicates that participants' perceptions were consistent, which makes the measurements more reliable.

Psychological empowerment has a moderate mean score (M = 3.77, SD = 0.60), meaning that employees feel somewhat empowered, but there is still much room for improvement. The higher standard deviation compared to transformational leadership shows that employees' experiences of empowerment are more varied. This could be because different units within Bank BNI have different ways of doing things, or employees see things differently.

The mean score for employee engagement is quite high (M = 4.17, SD = 0.59), meaning that most Bank BNI employees are engaged in their work. The standard deviation, however, shows that engagement levels are not the same for everyone in the workforce. The fact that all of the means are above the theoretical midpoint (3.5 on a 7-point scale) shows that the organization is generally in good shape. However, the range of scores (minimum values between 2.00 and 2.29) shows that some employees experience lower levels of these constructs, which shows that targeted interventions are needed.

3.3 Measurement Model Assessment

The measurement model was evaluated for convergent validity, discriminant validity, and reliability. All factor loadings exceeded 0.5, and Average Variance Extracted (AVE) values were above 0.5 for all constructs (Transformational Leadership: 0.656, Psychological Empowerment: 0.593, Employee Engagement: 0.663). Composite reliability values ranged from 0.863 to 0.976, and Cronbach's Alpha values ranged from 0.713 to 0.912, indicating satisfactory reliability.

3.4 *Structural Model and Hypothesis Testing*

Table 3. Hypothesis Testing Results

Hypothesis	Path	Beta (β)	t-value	p-value	Result
H1	TL \rightarrow EE	0.899	26.485	0.000	Supported
H2	TL \rightarrow PE	0.583	10.882	0.000	Supported
H3	PE \rightarrow EE	0.213	3.112	0.002	Supported
H4	TL \rightarrow PE \rightarrow EE	0.124	2.713	0.007	Supported

Note: TL = Transformational Leadership, PE = Psychological Empowerment, EE = Employee Engagement

The hypothesis testing outcomes furnish robust empirical validation for all suggested relationships within the research model. The direct relationship between transformational leadership and employee engagement (H1) exhibits an extraordinarily robust effect ($\beta = 0.899$, $t = 26.485$, $p < 0.001$), signifying one of the most significant relationships identified in leadership-engagement research. This substantial effect size signifies that transformational leadership behaviors constitute roughly 81% of the variance in employee engagement, underscoring the pivotal significance of transformational leadership within the banking sector.

The correlation between transformational leadership and psychological empowerment (H2) exhibits a significant positive effect ($\beta = 0.583$, $t = 10.882$, $p < 0.001$), signifying that transformational leaders successfully cultivate an environment that amplifies employees' sense of purpose, competence, autonomy, and influence. This finding corroborates the theoretical assertion that transformational leaders empower their subordinates by providing vision, intellectual stimulation, and personalized attention.

The impact of psychological empowerment on employee engagement (H3) demonstrates a moderate yet significant positive correlation ($\beta = 0.213$, $t = 3.112$, $p < 0.002$). Although this effect is less pronounced than the direct relationship between leadership and engagement, it is still statistically and practically significant, affirming that empowered employees exhibit elevated levels of vigor, dedication, and absorption in their work.

The mediation analysis (H4) shows that psychological empowerment partially mediates the link between transformational leadership and employee engagement ($\beta = 0.124$, $t = 2.713$, $p < 0.007$). This partial mediation suggests that transformational leadership affects engagement via two routes: directly and indirectly through psychological empowerment, offering a more comprehensive insight into the fundamental mechanisms.

3.5 Model Fit and Explanatory Power

The structural model demonstrated good explanatory power with RZ values of 0.425 for psychological empowerment and 0.754 for employee engagement, indicating that the model explains 42.5% and 75.4% of the variance in psychological empowerment and employee engagement, respectively.

4. Discussion

The results of this study provide strong empirical support for all proposed hypotheses, demonstrating the significant relationships between transformational leadership, psychological empowerment, and employee engagement in the banking sector context.

4.1 Interpretation of Hypothesis Testing Results

H1: Transformational Leadership and Employee Engagement

The strong relationship between transformational leadership and employee engagement ($\beta = 0.899$) represents a landmark finding in leadership research, supported by empirical evidence and theoretical frameworks. The variance explained by effect sizes was substantial and higher than that reported in most studies prior to the launches of this research, indicating that transformational leadership behaviors are especially appealing to employees working at the Indonesian banks. This stronger-than-expected relationship between transformational leadership and employee engagement may be partly due to cultural factors that emphasize some important fairness aspects of leadership and norms about being inspired and cared for by their leader. Another potential influence on the strength of this relationship is the nature of work in banking, where the leader is expected to establish high levels of trust and commitment.

From a theoretical standpoint, these findings support the overall framing of the work of Avolio et al. (2004) around the Constructive/Developmental Personality Theory, which has propositions that transformational leadership behaviors increase both personal development, behavioral change of the follower, as well as leader-follower engagement and commitment to work goals. The initial propositions from practical theory seem supported by the strong relationship in this study, particularly in the context of banking as a profession, where higher-order thinking and emotional demands are more intense.

Bass's transformational leadership theory offers added theory-based evidence for the results outlined above. Bass argued that leaders promote follower engagement via four distinctive processes: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Lowe et al., 1996). The four domains of transformational leadership facilitate a holistic atmosphere for employees to become engaged. When leaders model appropriate behaviour - which is idealized influence - trust and goodwill are built within a leader-follower relationship, leading employees to engage in their work more fully. This fits with social exchange theory, which articulates that employees are motivated to return positive

leadership behaviours with reciprocal levels of engagement and commitment (Christian et al., 2011).

Kahn's (1990) pioneering research on personal engagement offers theoretical support for exploring why transformational leadership behaviour contributes to high levels of employee engagement. Kahn defined the engagement concept as the "harnessing of organization members' selves to their work roles" concerning the physical, cognitive, and emotional dimensions of engagement in work tasks. Inspirational motivation provides employees a sense of purpose and meaning, contributing to the dedication dimension of engagement. Intellectual stimulation asks employees to engage their imaginations and solve problems in new and robust ways, leading to the absorption component of engagement. Lastly, individualized consideration allows each employee to feel recognized and supported, contributing to the vigour dimension via feelings of well-being and energy.

H2: Transformational Leadership and Psychological Empowerment

The strong positive connection ($\beta = 0.583$) between transformational leadership and psychological empowerment suggests that transformational leaders create empowering conditions or environments for their followers. The connection works across multiple pathways corresponding to the four dimensions of psychological empowerment and strongly aligns with several theoretical frameworks.

Spreitzer's (1995) psychological empowerment theory is the most foundational theoretical framework to explain the connection described. As outlined by Spreitzer, psychological empowerment is demonstrated through four cognitive dimensions: meaning, competence, self-determination, and impact. Transformational leaders can enhance meaning when they help followers relate each role to the organizational vision and societal purpose (which connect to the dimension of inspirational motivation of transformational leadership). Transformational leaders enhance competence via opportunities for intellectual stimulation and skill development, which can directly enhance followers' beliefs in their self-efficacy. Self-determination is enhanced via functionality given to individuals to exercise delegated authority and engage in participative decision-making. Impact is enhanced by transformational leaders engaging employees in strategic projects and recognizing and celebrating the contributions of employees.

Self-determination theory (SDT) offers additional theoretical support for this relationship by emphasizing the importance of autonomy, competence, and relatedness as fundamental psychological needs (Stander & Rothmann, 2010). As mentioned previously, transformational leaders enhance self-determination (autonomy), competence (intellectual stimulation), and relatedness (individualized consideration). When these psychological needs are satisfied, employees experience higher levels of psychological empowerment, which explains the substantial effect size observed in this study.

Social cognitive theory regarding self-efficacy and modelling processes further explains the relationship. Transformational leaders promote positive role modelling and provide vicarious experiences within an organizational context that can further develop followers' self-efficacy beliefs. The intellectual stimulation component of transformational leadership specifically promotes the development of competence beliefs, while the supportive and encouraging characteristics of individualized consideration promote self-determination and confidence.

The current finding supports BNI's investment in developing transformational leadership training programs since 2016. BNI's focused attitude towards transformative leadership behavior—specifically, acts of empathetic listening, establishing goals, delegating to employees, and creating opportunities to provide feedback—fosters environments where employees experience empowerment. Therefore, investing in systematic leadership development can promote the experience of psychological empowerment throughout the organization.

H3: Psychological Empowerment and Employee Engagement

While smaller than the direct leadership effect, the moderate positive relationship ($\beta = 0.213$) between psychological empowerment and employee engagement remains meaningful. This finding supports the work conducted by Jose and Mampilly (2015), indicating that employees who feel psychologically empowered are more likely to be engaged in their work. The four dimensions of psychological empowerment (meaning, competence, self-determination, and impact) will likely be important predictors of employee engagement in the banking context.

In addition to that, the major theoretical basis for this relationship is Spreitzer's (1995) theory of psychological empowerment. The theory states that when employees have high meaning, competence, self-determination, and impact, they are more likely to be engaged in their work role because they feel fully committed to it. This relationship between psychological empowerment and work engagement is supported by the positive relationship observed in this study. The four dimensions of empowerment also explain distinct variables contributing to engagement. Meaning provides a foundation for dedication by enabling employees to make sense of their work; competence supports vigor by building confidence and self-efficacy, thereby contributing to energy levels; self-determination contributes to each of the engagement dimensions by providing employees decision-making and related autonomy in their work methods; and impact supports absorption by connecting employees' efforts to significant outcomes, motivating them to become fully engaged in their work activity.

The self-determination theory offers additional theoretical support by proposing that satisfying basic psychological needs (autonomy, competence, and relatedness) increases the likelihood of experiencing intrinsic motivation and engagement. Employees using the psychological empowerment framework have higher levels of autonomy in their work, increased confidence in their competence, and feel more connected to meaningful outcomes. In turn, these experiences are directly related to higher levels of engagement, as employees report a greater willingness to devote their physical, cognitive, and emotional resources toward work activities.

The positive emotions that accompany psychological empowerment add another layer of theoretical consideration. When employees feel psychologically empowered, they experience positive emotions associated with autonomy, mastery, and purpose. These positive emotions broaden thought-action repertoires and build enduring personal resources, such as psychological resilience, creativity, and social relationships. Through engaging with positive experiences and emotions, the individual enters a positive spiral that maintains engagement over time. This explains why psychological empowerment is an important predictor of employee engagement, even when accounting for the direct effects of leadership.

H4: Mediation Effect of Psychological Empowerment

The partial mediation effect provides important information for understanding how transformational leadership influences employee engagement ($\beta = 0.124$). The outcome suggests that transformational leadership functions through direct and indirect pathways, which is consistent with many theories about the nature of mediation and dual pathway theories.

The partial mediation also supports mixological theories differentiating between immediate affective responses and longer-term cognitive and developmental processes. The direct pathway may occur in the immediate motivational and emotional responses to the leader's behaviors. This finding is consistent with emotional contagion theories or charismatic leadership theories. Transformational leaders develop emotional relationships with followers related to the concepts of inspirational motivation or idealized influence, leading to immediate increases in engagement through affective processes. The indirect effect through psychological empowerment represents a more cognitive and developmental process, consistent with cognitive-motivational theories of leadership effectiveness. This pathway involves the gradual development of empowerment cognitions (meaning, competence, self-determination, and impact) through sustained exposure to transformational leadership behaviors. Eventually, these cognitions of empowerment develop into stable psychological resources that positively influence employee engagement without any direct cognitive mediation.

Dual pathway models in leadership research assert that effective leadership influences followers through multiple mechanisms acting simultaneously. The partial mediation observed in the current study suggests the principles consistent with this theory by demonstrating that transformational leadership impacts engagement through direct emotional/motivational and indirect cognitive/developmental pathways. The dual pathway model implications for leadership effectiveness suggest that while transformational leaders may be able to inspire and motivate employees immediately, the ability to enhance engagement sustainably requires leaders to develop empowering conditions that provide opportunities for employees to experience ongoing thoughts and feelings of meaning, competence, autonomy, and impact.

The mediation finding also aligns with process theories of leadership that emphasize the importance of intermediate psychological mechanisms in explaining leadership effects. Rather than expressing that leadership directly affects outcomes, these theories state that leadership

directs effects upon outcomes through its influence on follower cognitions, emotions, and/or motivational states. The partial mediation through psychological empowerment provides empirical support for this theoretical perspective and explains why Bank BNI's focus on systematic leadership development and empowerment practices is critical for long-term engagement results.

4.2 Theoretical Implications

This study makes several significant theoretical contributions that advance our understanding of transformational leadership theory and its mechanisms. Most notably, the mediation analysis reveals that psychological empowerment is a crucial intermediate psychological mechanism through which transformational leadership influences employee engagement. This finding deepens our understanding of transformational leadership theory by providing empirical evidence for the underlying processes that explain how and why transformational leadership works, moving beyond simple direct relationships to reveal the complex psychological pathways involved.

The study provides robust empirical evidence in support of the Constructive/Developmental Personality theory within the banking sector, demonstrating that transformational leadership behaviors can facilitate psychological development and behavioral outcomes. The exceptionally strong direct correlation between transformational leadership and engagement ($\beta = 0.899$) suggests that the effects of transformational leadership may be amplified in certain cultural or organizational contexts, contributing to contingency theories of leadership effectiveness.

Furthermore, this research contributes to cross-cultural leadership theory by demonstrating the effectiveness of transformational leadership in the Indonesian context. The strong effects may reflect cultural values such as respect for authority, collective orientation, and high-power distance, which may amplify the impact of transformational leadership behaviors. This finding suggests that transformational leadership theory may have universal applicability while moderated by cultural contexts.

The partial mediation finding also contributes to process theories of leadership by demonstrating that leadership effects operate through multiple simultaneous mechanisms—both immediate affective responses and longer-term cognitive and developmental processes. This supports dual pathway models in leadership research and suggests that effective leadership development programs should address both emotional and cognitive dimensions of influence.

4.3 Practical Implications

The results provide practical insights for banking institutions and human resource management methodologies. First, organizations should prioritize helping managers at all levels learn to be transformational leaders. Because transformational leadership and employee engagement are closely linked, leadership development is one of the best things a company can do with its money.

One specific suggestion is to create comprehensive leadership development programs focusing on the four areas of transformational leadership. Leaders should learn how to communicate inspiring visions, be moral role models, challenge people's minds, and give each person the help they need. The current leadership framework at Bank BNI is a great starting point that could be built on and made more systematic.

Second, companies should make the environment conducive to psychological empowerment. This includes redesigning jobs to make them more meaningful, giving employees more freedom to make decisions, giving them chances to learn new skills to improve their abilities, and ensuring that everyone knows how their work affects the company. Regular ways to give feedback and programs to recognize people can make empowerment experiences stronger.

Third, the finding of partial mediation suggests that businesses should work on both direct leadership development and systematic empowerment programs. Strong leadership can quickly get people involved, but empowerment needs to be built into the organization's systems, processes, and culture for long-term high engagement.

4.4 Limitations and Future Research Directions

Several limitations should be acknowledged when interpreting these findings. First, the cross-sectional design makes it hard to find clear cause-and-effect links. While the theoretical justification and statistical evidence support the proposed causal model, longitudinal studies would provide more compelling evidence of causality and enable the examination of the progression of these relationships over time. Subsequent longitudinal studies should monitor the evolution of leadership behaviors, perceptions of empowerment, and levels of engagement over extended periods to better understand the temporal dynamics and causal sequences involved.

Second, the study was limited to a single organization (Bank BNI) in a specific geographic area (Yogyakarta), which may restrict the applicability of the results. The significant effects observed may be linked to the organizational context, the banking culture in Indonesia, or regional influences. To improve the generalizability of the findings, future research should replicate this model across various industries—such as manufacturing, healthcare, and technology—as well as different cultural contexts, including Western, Asian, and African settings. Additionally, examining organizations of varying sizes and structures would be beneficial. Cross-industry comparisons would be particularly useful in identifying the conditions under which transformational leadership is most effective.

Third, self-report measures create the potential for common method bias, although statistical analyses suggest this was not a major issue. Future research could enhance findings by integrating diverse data sources, such as supervisor evaluations of engagement, objective performance metrics, 360-degree feedback assessments, and observational data regarding leadership behaviors. Multi-source data collection would provide more robust validation of the relationships identified.

Fourth, the study concentrated on three fundamental constructs but did not investigate other potentially significant moderating variables that could provide a more nuanced understanding of leadership and engagement dynamics. Future research should examine how organizational culture dimensions (such as power distance, uncertainty avoidance, and collectivism), job characteristics (autonomy, task significance, skill variety), and demographic differences (age, tenure, education level, cultural background) moderate the relationships between transformational leadership, psychological empowerment, and employee engagement.

Future research directions should encompass: (1) experimental and quasi-experimental designs to support causal claims regarding the efficacy of transformational leadership interventions; (2) multi-level analyses to clarify how leadership effects influence organizational hierarchies and impact team-level outcomes; (3) examination of further mediating mechanisms such as trust, organizational identification, job crafting, and psychological safety; (4) investigation of potential linear relationships to determine optimal levels of transformational leadership behaviors; and (5) formulation and evaluation of integrated models that integrate transformational leadership with other contemporary leadership paradigms.

4.5 Conclusion

In conclusion, this research illustrates a strong direct relationship between transformative leadership and employee engagement in the banking sector, with psychological empowerment as a vital mediating factor. The results show that transformational leadership has short-term and long-term effects on motivation and development. This suggests good leadership works through complicated psychological pathways rather than direct effects.

The research also emphasizes the significance of systematic leadership development as a strategic organizational necessity. The partial mediation effect indicates that robust transformative leadership is crucial; yet, organizations must constantly foster empowering work conditions to maintain long-term employee engagement. Bank BNI's successful application of these leadership concepts serves as persuasive proof of the effective translation of theoretical frameworks into actual organizational actions.

Furthermore, this study enhances our comprehension of transformative leadership processes by clarifying the complex psychological mechanisms via which leaders affect follower outcomes. Recognizing psychological empowerment as a pivotal mediating factor enhances transformational leadership theory by offering empirical evidence for the fundamental processes that clarify leadership effectiveness, beyond simplistic direct correlations to reveal the complex relationships of leadership influence.

Additionally, the practical implications of these findings provide significant direction for organizations aiming to improve employee engagement through cohesive leadership development and empowerment strategies. This research offers evidence-based recommendations for leadership strategies and organizational environments that foster high-performance workforces. These strategies also help ensure sustainable competitive advantage as

modern organizations struggle with considerable talent acquisition, retention, and engagement challenges.

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