

Developing Organizational Capacity for Change: The Role of Leader and Trust in the Indonesian Healthcare and Social Security Agency

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Abstract—This quantitative study aims to investigate the influence of servant leadership on organizational capacity for change, mediated by trust in the leader. A total of 222 employees from the Indonesian Healthcare and Social Security Agency have participated in this study. Data were obtained by means of questionnaires and then analyzed using Structural Equation Modeling. The results of this study show that servant leadership has a significant influence on the organizational capacity for change. In addition, servant leadership also has a significant influence on trust in leaders. However, trust in leaders does not have a significant influence on the organizational capacity for change. Thus, this study also finds that trust in leaders does not mediate the relationship between servant leadership and organizational capacity for change.

Index Terms—organizational capacity for change, servant leadership, trust in leaders, organizational change

I. INTRODUCTION

Every organization needs to change, adjust itself with various demands from outside or inside the organization to be able to survive from time to time. Palmer, Dunford, and Buchanan argued that organizational change is everything that is new to the organization, starting from changing employee personal job descriptions to changing organizational systems as a whole [1].

Organizational change is not an easy thing to proceed with. Many studies stated that organizations face increasing rate and complexity of the change itself. Various literatures mentioned that change efforts carried out by organizations have a high rate of failure, which is almost reaching 70% [2]. This failure will certainly have negative consequences on the operational continuity and sustainability of the organization. Those consequences include deteriorating organizational credibility and reputation, decreased productivity, increased stress and employee turnover levels, withdrawal of capital by shareholders, and loss of organizational opportunities to remain competitive in industrial competition [1]. A high rate of failure of the change efforts and the negative consequences of change failures should be taken into consideration by the organizations to better prepare themselves for the demands of organizational change. Consequently, each organization must have and develop the capacity for change, be able to undergo the change process effectively, and produce the intended results [2].

The capacity of an organization to change, or organizational capacity for change, is a multi-dimensional capability that enables an organization to advance or improve its competencies, and develop new competencies needed to survive and thrive overtime [3]. This is a new concept in the change management literature, and therefore various studies on constructs, measurements, antecedents and consequences of organizational capacity for change must continue to be explored so that a more comprehensive understanding of this concept can be obtained [3].

In addition to organizational capacity for change, an individual capacity to manage and carry out the change process in an organization is also important, for change is often considered as a systematic and largely political process, whereas for most of the times it will result in “winning sides” and “losing sides” [1]. Accordingly, Schneider (1987) argued that the most important factor in building organizational success, including organizational change, is the people within the organization, which include leaders and members of the organization [4].

Previous studies have found that in implementing organizational change, a “leader” who initiates and determines the direction of change, inspires others and drives the change is very much needed. Subsequent research studies seek to identify the ideal characteristics of these leaders [1] by using pre-existing leadership concepts such as the transformational, transactional, laissez-faire, authentic leadership, and servant leadership concepts [5], [6].

The concept of transformational leadership is a leadership style that inspires subordinates to work beyond their personal desires, giving more than expected for the good of the organization [7], while the concept of transactional leadership is a leadership style that directs or motivates subordinates to achieve the goals that have been set by explaining the roles and tasks that must be done [7]. The concept of laissez-faire leadership is the most passive leadership style (leaving obligations and avoiding decision making) which makes it the most ineffective leadership style [7]. Authentic leadership style shares information, encourages open communication, and maintains the idealism held [7]. Meanwhile servant leadership style has a broader scope since it puts forward obligations to the organization, customers, society, and other stakeholders [8]. Of the many leadership frameworks and styles that exist in

the management literature, there is a leadership framework that addresses the emotional, relationship, and moral dimensions of leadership, namely the servant leadership style [9].

The servant leadership style begins with the calling of the soul to serve people first. A servant leader prioritizes and ensures that the needs of others are fulfilled properly [10]. The servant leader positions him/herself as a servant and administrator rather than a leader or business owner, and his/her main motivation is to serve, which is the opposite of leading or commanding [8]. The best indication of this leadership style is answering the question whether those who are served become people who are well served, healthier, wiser, freer, more independent and tend to be good people [10].

Various studies have been conducted to investigate the important relationship between trust in a leader, and leadership behavior in organizations. However, none of the studies specifically elaborates the relationship between leadership behavior and the form of employee trust in their leaders [11]. Faith or trust is an important element in the context of organizational change. To trust is to position oneself in a risky position hoping that the trusted people will not attempt any action that could harm the person who gives trust [12]. Trust in an organizational context includes trust in superiors, colleagues, and organizations. Previous studies have found that trust among team members is important for the organization to be able to succeed in implementing the change process which depends on the way the leader treats subordinates or team members (Ferrin and Dirks (2003) in [5]).

Several previous studies have found that leadership in an organization is one of the important factors that can develop the organizational capacity for change, as well as trust in the leader [3], [5], [13]. Nonetheless, the number of researches that places trust in leaders as mediators between organizational leadership and capacity for change is limited, thus further investigation is still needed [5].

With regard to leadership in the context of change, various studies mention that transformational leadership and change leadership are examples of leadership styles that are widely associated with the effectiveness of organizational change. Meanwhile, the influence of servant leadership in the context of organizational change is still rarely explored [25], even though servant leadership has been proven to have a significant relationship with the formation of trust in leaders [11]. Based on these findings, this study will investigate the influence of servant leadership style on the organizational capacity for change, which is mediated by trust in leaders.

This study is conducted in the Indonesian Healthcare and Social Security Agency, a government-owned health insurance company whose industrial scope is undergoing rapid changes. This change occurs due to various factors, including changes in government policies related to insurance services for the community, advances in information and communication technology, changes in consumer demand, and increasingly intense competition among fellow insurance companies, especially from the private sector. Organizational change that is being

carried out by the Indonesian Healthcare and Social Security Agency is interesting to be observed as it is a public legal entity that has been mandated by the government to organize social health insurance for all levels of society in Indonesia. The success of the Indonesian Healthcare and Social Security Agency to change and develop will certainly have a major impact on improving Indonesian people's welfare and quality of life. Moreover, organizational change at the Indonesian Healthcare and Social Security Agency was also mandated by the government. Organizational change that is being made by the Indonesian Healthcare and Social Security Agency includes a change in legal status, change in the number of funds managed, coverage of participants, number of participants, number of employees, partner health facilities, service points, and change in the business context.

II. LITERATURE REVIEW

A. *Servant Leadership*

Leadership style is the ability to influence a group in order to achieve the vision or predetermined goals [7]. The ability to exert this influence can come from formal sources such as official positions or managerial levels in the organization, as well as informal ones, such as competency, charisma or other abilities that arise without a position in the formal structure of the organization [7]. At present, there are many concepts about leadership that often become research subjects, such as transformational leadership, transactional leadership, laissez-faire leadership, authentic leadership, and servant leadership [5], [6]. Servant leadership is a leadership style that puts forward individual and organizational needs, indicated by openness, stewardship, and vision that lead to the establishment of a community in an organization [15].

B. *Trust in Leaders*

Trust is a phenomenon that is socially constructed. Therefore, obtaining a universal definition of trust is almost impossible [12]. Consequently, there are different definitions of trust in places with different social values. To trust is to position oneself in a risky position hoping that the trusted people will not attempt any action that could harm the person who gives trust [12]. Atkinson and Butcher then conceptualize trust in the context of a managerial relationship. Based on this concept, the sense of trust in question focuses more on trust in leaders rather than trust in the organization [11]. Trust in leaders is defined as the acceptance of subordinates to the behavior and actions taken by their superiors that cannot be controlled [16].

C. *Organization Capacity for Change*

Organizational capacity for changes is a concept that is fairly new in the change management literature. This encourages the need for research on the constructs, measurements and antecedents and the consequences of organizational capacity for change [3]. According to Judge and Elenkov, organizational capacity for changes is the broad and dynamic ability of the organization that makes the organization able to adjust its capabilities with new threats and opportunities,

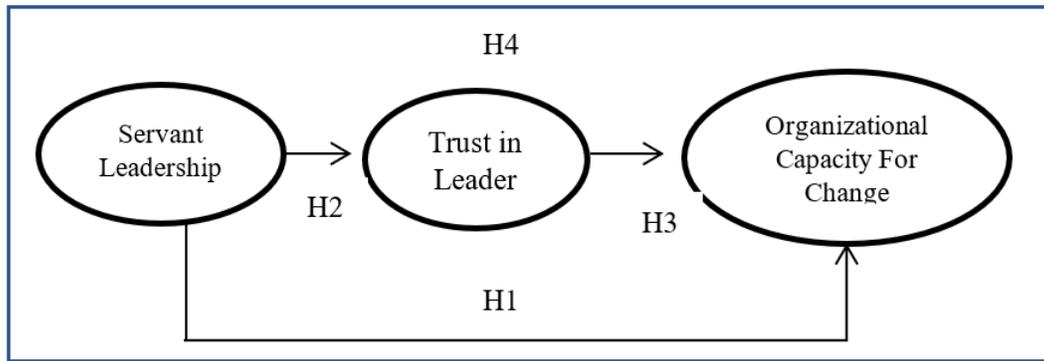


Fig. 1. The model of this research.

and also develop new capabilities [17]. Additionally, according to Judge and Douglas, organizational capacity to change is a combination of managerial and organizational capabilities that make the organization adapt faster and more effectively than its competitors in the face of ever-changing circumstances [18]. The dimensions that build this concept according to Judge and Douglas [18] are trustworthy leadership (the ability of senior leaders to earn trust from the rest of the organization, and to show employees the way to meet its collective goal), trusting followers (the ability of non-executive employees to constructively dissent with/or willingly follow a new path advocated by their senior leaders), capable champion (the ability of an organization to attract, retain and empower change leaders to evolve and emerge), involve mid management (the ability of middle manager to effectively link senior executive with the rest of the organization), innovative culture (the ability of the organization to establish norms of innovation and encourage innovative activities), accountable culture (the ability of the organization to carefully steward resources and successfully meet pre-determined deadlines), effective communication (the ability of the organization to communicate vertically, horizontally and with customers), system thinking (the ability of the organization to focus on root causes and recognize the interdependencies within and outside the organizational boundaries). The organizational capacity for changes requires organizations to react to different changes as well as to adapt, learn, and innovate proactively [2], [20].

III. RESEARCH METHODOLOGY

A. Sample, Research Instrument and Data Analysis Techniques

This study was conducted in the Indonesian Healthcare and Social Security Agency that is undergoing organizational change. A total number of 250 respondents were given the questionnaire. However, only 222 returned it. Human resource department staff assisted us to distribute the questionnaires. The questionnaire in this study consists of 7 items that measure servant leadership (developed by Reike [15]), 4 items that measure trust on the leader (developed by Reike and Baldwin [19]) and 32 items that measure organizational capacity for

change (developed by Judge and Elenkov [17]). The final questionnaire was tested for its validity and reliability. The data was analyzed using Structural Equation Modeling.

The research model used in this study refers to several pre-existing research models, developed by Joseph and Winston [20], Sendjaya and Pekerti [11], Chan and Mak [21], and Yasir, Muhammad, Khan, Imran, and Irshad [5].

Four research hypotheses that are being tested in this study are as follows:

H1: Servant leadership has a positive impact on the organizational capacity for change.

Yasir, Muhammad, Khan, Imran, and Irshad examined the influence of 3 leadership styles, namely transformational leadership style, transactional leadership style, and laissez-faire on organizational capacity for change, and the results showed that transformational leadership style and transactional leadership style was proven to have a positive relationship with organizational capacity to change, while laissez-faire leadership proved to have a negative relationship with organizational capacity to change [5]. According to Yasir, Muhammad, Khan, Imran and Irshad, research on the influence of servant leadership styles in the context of organizational change is still rarely conducted [5]. Thus, further investigation regarding the relationship between the two variables will be valuable. In addition, transformational leadership style has several similarities with servant leadership style which focuses on the development of the subordinates through personal attention, intellectual drive, and behavior that supports the development of subordinates [25].

H2: Servant leadership has a positive influence on trust in leaders.

This hypothesis is formulated based on the results of previous research conducted by Sendjaya and Pekerti which stated that servant leadership has a positive influence in building trust in leaders or superiors [11]. The correlation between servant leadership and trust in leaders can be explained by the fact that servant leadership increases employees' perception of the leader's trustworthiness [22]. The research results are in line with Reike [15]. In his research, Reike found that the characteristics of servant leadership that prioritize the interests of others can nurture trust between employees and

TABLE I
RESEARCH HYPOTHESIS TESTING RESULTS

Hypothesis	Path	SLF	T-value	Conclusion
H1	Servant leadership → OCC	0.54	3.32	Accepted
H2	Servant leadership → Trust in leaders	0.81	10.31	Accepted
H3	Trust in leaders → OCC	0.02	0.11	Rejected
H4	Trust in leaders mediates the influence of servant leadership style on OCC	–	–	Rejected

their superiors [15]. Research conducted by Sendjaya and Pekerti found that servant leadership has a positive influence on trust in leaders [11].

H3: Trust in leaders influences organizational capacity to change.

Trust in leaders has an important role in increasing organizational capacity for change [5]. The trust which is an asset in a relationship is the source of a transition process and is also considered a condition that facilitates the process of change in an organization [13]. The trust between pioneers and change participants will make the change process progress more smoothly [13]. In addition, previous research conducted by Yasir, Muhammad, Khan, Imran, and Irshad stated that there is a positive relationship between employee trust in superiors and organizational capacity for change [5]. This is in line with the research conducted by Soparnot [13].

H4: Trust in leaders mediates the impact of servant leadership style on the organizational capacity for change.

Soparnot stated that trust in leaders is considered a condition that facilitates the process of change made by the organization [13]. The trust that exists between the change leader and the participants are proven to help facilitate the ongoing process of change [13]. Based on that result, this study intends to investigate whether trust in leaders can mediate the influence of the servant leadership style on the organizational capacity for change.

IV. RESULTS

As summarized in table I, this study found that servant leadership proved to have a significant positive influence on the organizational capacity for change (OCC). This can be seen from t-values and SLF (3.32 and 0.54) which are greater than the cut-off value. These results support the findings of previous studies which stated that in general, leadership has a very significant influence in the context of organizational change [5], [25]. This study also found that servant leadership specifically has a significant influence on trust in leaders with t-value and SLF of 10.31 and 0.81, which are greater than the cut-off values. This result supports the previous research conducted by Sendjaya and Pekerti which found that the servant leadership style has a significant positive influence on trust in leaders [11].

Surprisingly, this study also found that trust in leaders does not have a significant influence on the organizational capacity for change, as indicated by t-value and SLF presented on table I that are lower than the cut-off value (0.11 and 0.02). Thus, it can be said that trust in leaders does not mediate

the relationship between servant leadership and organizational capacity for change as expected before when we develop the hypothesis.

V. CONCLUSION AND DISCUSSION

This research found that leadership, specifically servant leadership has a positive influence on the organizational capacity for change. It can be said that the characteristics of servant leadership that are observed by employees can increase organizational capacity for change. Leader's openness, ability to communicate the new vision, and stewardship can increase organization's capacity for change which can be observed through the presence of trustworthy leadership, trusting followers, capable champions, involved mid-management, innovative culture, accountable culture, effective communication, and systems thinking. Secondly, this study also found that servant leadership can increase employee trust in the leader. Hence, a leadership style that puts forward individual and organization needs, as indicated by openness, stewardship, and vision, that leads to the establishment of a community in the organization turns out to be able to increase employees' perceptions of the trustworthiness of that leader. Lastly, this study found that trust in leaders does not have a significant influence on the organizational capacity for change, and servant leadership can directly influence organizational capacity for change.

This study has implications for management in practice. In order to enhance organizational capacity for change, the leader of this organization needs to be more open, communicate the new vision effectively, and be willing to be held accountable for the well-being of the larger organization by operating in service, rather than in control. These characteristics should be nurtured across the organizational hierarchical level of leadership.

Aligned with its contribution, this study also has its limitations. Firstly, because this research relied on cross-sectional data, the direction of causality cannot be fully validated. Further research based on longitudinal data are needed to investigate the direction of causality. Secondly, the researcher cannot directly distribute and collect data from the respondents, and only involved a single organization. This condition limits the generalizability of this study. It is suggested that in future research, a better sampling procedure should be applied. Further research can also be conducted in several organizations which are undergoing substantial change to be able to increase the generalizability of the result.

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