



Faculty of Economics and Business

The Moderating Role of Individual Adaptability Towards the Influence of Transformational Leadership and Employee Reactions on Individual Work Performance in Malaysia Oil and Gas Company

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DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Malaysia Sarawak. Except where due acknowledgements have been made, the work is that of the author alone. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

.....

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To God be the glory. Amen.

ABSTRACT

Leadership effectiveness has been the subject of interest by researchers over the years. Labour market is changing very quickly and working domain constantly modified due to uncertain social and economic environment. This development requires individual to adapt fast in an increasingly complex work environment which demands employees to apply creative, innovative, collaborative, and analytical skills that technology cannot replicate. Such skills can generate new ideas, products, and better procedures. Hence, this study aims to propose a leadership effectiveness model that incorporates individual adaptability as a moderating factor. To elucidate and expand the current leadership effectiveness model, the expectancy theory of motivation was applied in this study to explore the thought process of interaction between individuals and the environment. The respondents constitute employees of oil and gas companies in the upstream segment in East and West Malaysia. This study employed a cross-sectional research design and data were obtained using a multistage sampling technique from 204 employees at four hierarchical positions. The Structural Equation Modelling (SEM) in IBM-SPSS-AMOS 24.0 was utilized to analyze and assess the inter-relationships of constructs. All four hypotheses achieved the desired significant level and were supported. The findings stress the significance of individual adaptability in boosting work performance, especially since there is scarce research on individual adaptability that examines skills such as creative, innovative, collaborative, and analytical skills but rather on culture and unfamiliar environment. The limitations and recommendations are also highlighted in this study.

Keywords: Employee reactions, transformational leadership, individual work performance, individual adaptability.

Peranan Penyesuaian Kendiri Sebagai Moderator di dalam Pengaruh Kepimpinan Transformasi dan Reaksi Pekerja Terhadap Prestasi Kerja Individu dalam Syarikat Minyak dan Gas di Malaysia

ABSTRAK

Keberkesanan kepimpinan sememangnya sebuah topik hangat sejak kebelakangan ini. Pasaran buruh berubah dengan sangat cepat dan persekitaraan tempat kerja juga sentiasa diubahsuai disebabkan oleh ketidakstabilan sosial dan ekonomi. Perkembangan ini memerlukan individu menyesuaikan diri di dalam persekitaraan kerja yang semakin kompleks yang memerlukan individu berkemahiran seperti kreatif, inovatif, bekerjasama dan analitikal. Kemahiran tersebut dapat menghasilkan idea-idea baru, produk-produk baru dan prosedur yang lebih baik. Oleh itu, objektif utama kajian ini adalah untuk mencadangkan model keberkesanan kepimpinan dengan mengambil kira penyesuaian sendiri sebagai moderator. Teori 'expectancy' dipilih dalam kajian ini untuk menghuraikan dan menjelaskan model tersebut dengan meneroka proses pemikiran pekerja dalam interaksi di antara individu dan persekitarannya. Responden kajian terdiri daripada pekerja syarikat segmen hulu industri minyak dan gas yang beroperasi di Malaysia. Kajian secara keratan rentas digunakan dan data dikumpul melalui persampelan secara berperingkat (multistage) daripada 204 pekerja. Permodelan Persamaan Berstruktur (SEM), IBM-SPSS-AMOS 24.0 digunakan untuk menalisis dan mengkaji hubungan di antara konstruk. Empat hipotesis yang dirangka diterima dan mencapai tahap signifikan yang dikehendaki. Berdasarkan dapatan kajian, penyesuaian sendiri memainkan peranan penting dalam meningkatkan mutu kerja individu. Batasan kajian dan cadangan kajian pada masa depan juga dibincangkan.

Kata kunci: *Reaksi pekerja, kepimpinan transformasi, prestasi kerja individu, penyesuaian sendiri.*

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LIST OF ABBREVIATIONS

CFA	Confirmatory Factor Analysis
COVID-19	Corona Virus Deceases
CP	Contextual Performance
CWB	Counterproductive Work Behavior
EFA	Exploratory Factor Analysis
ER	Employee Reactions
FI	Fitness Index
GDP	Gross Domestic Product
GII	Global Innovation Index
IA	Individual Adaptability
IR4.0	Fourth Industrial Revolution
IWP	Individual Work Performance
JS	Job Satisfaction
MLQ	Multifactor Leadership Questionnaire
OC	Organizational Commitment
OCB	Organizational Citizenship Behaviour
PCA	Principal Component Analysis
SEM	Structural Equation Modeling
TFL	Transformational Leadership
TP	Task Performance
TSL	Transactional Leadership
TVE	Total Variance Explained

CHAPTER 1

INTRODUCTION

1.1 Introduction

Leadership effectiveness is vital in an organization. Organizations may fail if the leadership issues are not handled tactfully. Some claim that employees usually leave an organization due to bad leadership and not the organization itself. Leadership effectiveness comes in many ways and no one leadership model fits all organizations. Thus, knowing the best leadership model for an organization is crucial and an expensive investment. This depends on the industry that the organization is in or the nature of the business it is involved in. There are no permanent solutions to leadership challenges faced by an organization because the business environment is constantly changing. Hence, leadership effectiveness should be revisited frequently to ensure that it is relevant to the current development in a business environment.

The field of leadership started to gain attention in the early 19th century and developed gradually since then in different contexts such as models, methodologies, and the target populations. Leadership is primarily focused on a leader who is individually at the top of the organization hierarchy. However, currently, the field of leadership is rather complex as the focus areas are vast, involving followers, culture, supervisors, peers, work setting, individuals from different nations, and life background. The leadership scope has gradually shifted from a moderator to a tool to influence people. Furthermore, leaders need to be accepted by followers to remain effective in the position that they are holding.

The ability to motivate and empower followers is important and it can lead to higher job performance with the extra effort that they put in. Current literature on leadership effectiveness proposes that transformational leadership suits the needs of employees in the current marketplace and workforce for it has an additive effect on employee motivation (Andriani et al., 2018; Hoogeboom & Wilderom, 2019; Kloutsiniotis et al., 2022). According to Erkutlu (2008), leadership is a social influence process that may improve leadership and organizational performance. Leaders, by nature, tend to influence employees and assist them in achieving certain organizational goals. Additionally, leaders with the transformational leadership style are better equipped to inspire the employees to perform better than expected (Moon, 2016).

Various studies have investigated the significant associations between transformational leadership with work performance and employee reactions as work outcomes (Chen & Fahr, 2001; Suliman & Al Obaidli, 2013). As stated by Kanfer et al. (2008) and Finkelstein et al. (2015), over the last two decades, researchers have given their attention to the influence of transformational leadership on employee reactions, namely organizational commitment, organizational citizenship behavior, and job satisfaction, corresponding to work motivation that has shifted its perspective from performance-oriented to person-oriented.

In today's working environment, employees with more adaptable and creative skill sets are required, and great teamwork is essential for such skill sets (Lau, 2017). Businesses constantly require new ideas to offer new products and services or to improve existing business process more cost-effectively. According to George and Haas (2014), the requirement of such skills appears from the dynamic working environment that deems

business analytics, 'big data', and a smarter living mode crucial. The technology has driven the business environment towards a faster pace including human capital and business processes (Schwab, 2015). The new way of doing business will force other interrelated business units to move parallel; otherwise, they will lose their competitiveness.

Based on recent studies, employee reactions have been essentially used to measure leadership effectiveness inside organizations. As such, Kanfer et al. (2008) stated that it is important to understand employee reactions based on their work motivation because this enhances organizational productivity and the management of human capital. Nowadays, human capital is the greatest asset that an organization could have. High reliance on technology forces employees to focus on creativity that technology could not replicate. Thus, for organizations to discover the potential to experiment and optimize individual values, it is indeed crucial to improve human capital by learning, understanding, and changing (Baron & Armstrong, 2007).

Employee reactions were found to have a significant influence on organizational performance (Porter et al., 1973) and how employees respond to the leadership exhibited will determine their work performance. Since employee reactions have been associated with organizational performance (Boon et al., 2005; Jiang et al., 2012), many studies have also demonstrated a direct, positive relationship between transformational leadership and employee reactions such as organizational commitment as demonstrated by Erkutlu (2008) and Han et al. (2016), organizational citizenship behavior by Suliman and Al Obaidli (2013) and Nguni et al. (2006), and job satisfaction by Adi et al. (2013) and Choi et al. (2014).

Additionally, research has further evidenced positive relationships within the dimensions of employee reactions such as between employee commitment and employee

behavior by Foote and Tang (2008) as well as between individual behavior and satisfaction by Feather and Rauter (2004). These relationships are due to a psychological contract between leaders and employees that will first influence the psychology (commitment) of the employees and lead to changes in behavior (citizenship behavior) and emotions (job satisfaction).

Further, researchers such as Steyrer et al. (2008) and Munchiri et al. (2012) had extended the influence of transformational leadership on individual and organizational performance. While past studies have evidenced a positive link that involves leadership, employee reactions, and individual work performance (Nguni et al., 2006; Han et al., 2016), these studies are, however, insufficient in terms of individual adaptability, considering that the current working environment is adopting Industrial Revolution 4.0 or IR 4.0. Hence, given this limitation, the present study primarily aims to come up with a new leadership effectiveness model adopting the new working environment with a new skill set required for employees.

Briefly, the present study is aimed at extending and refining the current leadership effectiveness model by incorporating employee reactions and challenging the possibility of individual adaptability as the moderator. A research background will be presented in the following sub-topic, along with the questions and objectives addressed in this study, problem statement, research scope, and research implications.

1.2 Background of the Study

The birth of a new revolution called the Fourth Industrial Revolution or known as IR 4.0 originated from Germany that promotes the computerization of manufacturing has changed the business landscape significantly since 2011 (Schwab, 2015). This new

technological era that incorporates hardware, software, and biological elements highlights the advancement of connectivity and communication. Additionally, the IR4.0 is highly likely to increase income levels on a global scale and enhance the living standards of the worldwide populace.

Advance in communication and connectivity has created possibilities for users to the unlimited accessibility of knowledge via mobile devices due to increased processing power and storage capacity of devices. As a result, the possibilities will open door to new fields such as artificial intelligence, autonomous vehicles, biotechnology, energy storage, robotics, the Internet of Things, materials science, nanotechnology, quantum computing, and 3-D printing (Schwab, 2006). However, the emerging new fields of technologies evolving at an exponential pace has disrupted nearly all industries across nations.

Such a disruption signals the entire production systems' transformation including governance and administration. Transformation in an organization will take place, making it necessary to remain competitive in the current business environment (Wittig, 2012). Although most concerns are focusing on how well certain industries and organizations adapt to the changes (e.g., Sommer, 2015), the impact of IR 4.0 on human capital in organizations is often overlooked. Indeed, IR 4.0 has also changed the workplace landscape in human capital management.

The requirement for workforce skill sets has changed since the repetitive job has been taken over by technology. As such, the focus will be more on the job that technology could not replicate. Lau (2017) once said that, nowadays, the working environment demands employees who are “more creative, collaborative, and analytical” in the sense that artificial

intelligence cannot replicate. George and Haas (2014) added that the working environment increasingly puts “emphasis on big data, business analytics, and ‘smart’ living.”

Hence, it is equally necessary to examine how IR 4.0 impacts human capital. While most governments, international organizations, and industries are embracing the changes and technology, human capital readiness, and capability to adapt to the new environment, the most alarming issue is that the concept of IR 4.0 remains unclear to the industry players (e.g. Eisert, 2014). The setup of organizations has changed such that they require more cooperation and teamwork to achieve goals set for them in the workplace. It is no longer employing the conventional way of working, which is very departmentalized and performance-based.

The workplace today leans towards the flexibility of roles as well as the contribution of new ideas and problem solutions. From the industries’ point of view, the oil and gas industry are not excluded from the impact of IR 4.0 whereby the technological advancement has improved the decision-making process in organizations. The challenges in the oil and gas industry are even vicious as the disrupting wave of IR 4.0 is multiplied by the issues of declining oil reserve, fall of oil price, and green energy (Noeh et al., 2022). There are several reasons behind the transformation of oil and gas business processes such as digitalization and sustainability (Shafie et al., 2011; Knight, 2020).

The oil and gas industry has to adopt digitalization to remain competitive in the market and adopting digitalization will give them a comprehensive view of business effectiveness besides helping them forecast and predict the future trend of demand based on the available data. Besides, the increase in people's awareness of global warming has become the push factor for organizations to be more sensitive towards the environment. Consumers

are more concerned about balance and healthy business practices in organizations that give equal weight to the economy, society, and environment (International Chamber of Commerce, 2015)..

The oil and gas industry's business environment has gotten worse when the unprecedented COVID-19 pandemic hits, forcing almost all countries into a lockdown for at least three months to curb the spread of the deadly virus (PETRONAS, 2020). The economic downturn is inevitable due to the closing down of most business activities including schools, plantation, and manufacturing except for essential services, for instance, the banking and the healthcare sectors. The pandemic has shifted the government expenditure's concentration from the development agenda into providing aids to the people on the ground who are directly or indirectly affected. This unprecedented situation has forced organizations to adjust their costing and realign their strategies. In some organizations, cutting costs means adopting technology in their daily job.

Although many factors discussed in the previous paragraph can contribute to the management and governance style, this study will look into the impact of technology advancement or digitalization due to IR 4.0. This study intends to see how technological advancement influences the relationship between employee motivation and the leadership style exhibited in organizations. Besides, this study will also look into how the new requirement of skill sets in the workforce affects the work performance of employees. The framework of this study will be developed based on the leadership theory and the motivational theory.