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THE EFFECT OF DIGITAL LEADERSHIP AND ORGANIZATIONAL CULTURE ON EMPLOYEE INNOVATION WITH TECHNOLOGY READINESS AS AN INTERVENING VARIABLE

(A Case Study at Sarwodadi Makmur Abadi Outsourcing Company in Semarang)

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ABSTRACT DOI No: 10.36713/epra24201 Article DOI: https://doi.org/10.36713/epra24201

Digital transformation requires organizations to have digital leadership, an adaptive organizational culture, and technological readiness to encourage employee innovation. This study aims to analyze the influence of digital leadership and organizational culture on employee innovation with technological readiness as a mediating variable. The research method uses a quantitative approach with Structural Equation Modeling-Partial Least Squares (SEM-PLS) analysis technique. The results show that digital leadership has a significant positive effect on technological readiness and employee innovation. Organizational culture has a significant effect on technological readiness, but its direct effect on employee innovation is only marginally significant. Furthermore, technological readiness is proven to have a significant effect on employee innovation, while also mediating the relationship between digital leadership and organizational culture with employee innovation. These findings confirm that technological readiness is an important factor that bridges the role of digital leadership and organizational culture in driving employee innovation in the digital era. digital leadership, organizational culture, employee innovation, technological readiness.

KEYWORDS: ***Digital Leadership, Organizational Culture, Employee Innovation, Technological Readiness.***

INTRODUCTION

The development of digital technology in the era of the Fourth Industrial Revolution and towards Society 5.0 has brought about major changes in almost all sectors of life, including the world of business and organizations. Companies are faced with the demand to adapt to the acceleration of digitalization, which not only affects the way goods and services are produced and distributed, but also changes work patterns, organizational structures, and even the characteristics of human resources. Ultimately, digital transformation is inevitable and must be managed with the right leadership strategies and a supportive organizational culture.

In this context, digital leadership has become a strategic necessity. Digital leaders are required to be able to integrate technology into daily management practices, guide employees to be more open to change, and become role models in the use of technology. Previous research shows that digital leadership contributes positively to organizational performance, particularly through the mediation of intellectual capital and innovation (Juvika, 2023). Additionally, Laelawati (2024) emphasizes the importance of the role of digital leaders in building a culture of innovation that ultimately impacts human resource management. Thus, it can be said that digital leadership styles have direct and indirect implications for employee innovation.

In addition to leadership factors, organizational culture also has a significant influence in creating an innovative work climate. Organizational culture is a set of values, beliefs, and norms shared by members of the organization, which shape patterns of behavior at work. An adaptive, consistent, mission-oriented organizational culture with employee engagement can be a powerful driver of innovation (Denison et al., 2020). Research by Cameron & Quinn (2011)also confirms that an organizational culture that emphasizes learning and creativity can help companies cope with dynamic external environmental changes. Without a supportive organizational culture, employee innovation is difficult to achieve even if leadership is adaptive to the digital era.

However, recent research shows that the influence of digital leadership and organizational culture on innovation is not always direct. There are mediating factors that strengthen this

relationship, one of which is technological readiness. Technology readiness is defined as the level of readiness of individuals or organizations to accept and use new technologies to improve efficiency, effectiveness, and competitiveness (Parasuraman & Colby, 2015). This concept covers four dimensions, namely optimism, innovation, discomfort, and insecurity. Research by Nguyen & Hsieh (2022)shows that a high level of technology readiness is closely related to an organization's ability to innovate, while Alsabawy & Cater-Steel (2021) found that low technology readiness is actually a major obstacle to the implementation of digital transformation in organizations.

In practice, many companies face challenges in the form of a gap between digital leadership policies and the technological readiness of employees. Leaders may have encouraged digitization, but if employees feel unprepared—whether due to limited knowledge, skills, or attitudes toward technology—innovation will be difficult to achieve. Conversely, when companies succeed in building an organizational culture that supports learning and improves technological readiness, employees will be more confident in creating new ideas, developing creative solutions, and applying them in their work. This is in line with the findings of Shanker & Bhanugopan, (2020)that organizational support and employee psychological readiness have a significant effect on innovative work behavior.

This context is particularly relevant for Sarwodadi Makmur Abadi Semarang Outsourcing Company, which operates in the service sector with a primary focus on labor. As an outsourcing company, the quality of services provided to clients is highly dependent on the competence, responsiveness, and innovation of its employees. Amidst increasing demands for digitalization, outsourcing companies are required to be able to adapt to market needs, such as the use of information systems, digital applications, and technology-based services. Without visionary leadership, a flexible organizational culture, and employee technological readiness, companies risk falling behind in competition.

Based on this description, this study focuses on the influence of digital leadership and organizational culture on employee innovation with technological readiness as an intervening variable. Theoretically, this study aims to strengthen the literature on the relationship between leadership style, organizational culture, technological readiness, and employee innovation. Meanwhile, in practical terms, this study is expected to contribute to companies in designing more adaptive leadership and organizational culture strategies, while also increasing employee technological readiness so that innovation can be realized optimally. Thus, this study seeks to address both academic and practical needs, as well as fill the research gap regarding the role of technological readiness in strengthening the relationship between digital leadership, organizational culture, and employee innovation in the era of digital transformation.

LITERATURE REVIEW

2.1 Digital Leadership

Digital leadership reflects a leader's ability to respond to technological changes by building innovative strategies, strengthening teamwork, and ensuring that the organization remains adaptive to digital developments and market changes (Sagung & Sri, 2020). Leaders in the digital era are required not only to encourage technology adoption but also to inspire employees to embrace transformation and maximize the use of digital tools to improve performance (Kiefer et al., 2021). Brett (2020) emphasizes the importance of long-term vision, human resource empowerment, flexible mindsets, continuous evaluation, and dynamic leadership structures. Additionally, according to Sheninger (2014), digital leadership requires the creation of a collaborative and strategic learning culture through the use of technology. In various sectors, digital leaders need to have digital intelligence, high adaptability, and data-driven decision-making so that organizations can continue to grow (Erhan et al., 2022; Zhong, 2017; Sağbaş & Erdoğan, 2022; Budiman et al., 2022) (Budiman, 2021).

Digital leadership can be measured through several dimensions and indicators. Wesly in Saputra & Saputra (2020:99) states that there are two dimensions of digital leadership, namely:

1) 1) Digital Attitude

Digital attitude is a leader's and employees' view of the digital technology used by a company to assist in company activities.

a. Adapting to new technology learning.
b. Implementation of new technology.
c. Experience with new technology.
d. Teamwork.
e. Sharing technological knowledge.

2) Leadership Skills

Leadership skills are the ability of a leader to provide direction to employees within a company in order to pursue a shared vision and mission in the digital era.

a. Formulating the company's vision and mission.
b. Data-driven decision making.
c. Comfort in the uncertainty of the digital era.
d. Being a role model for employees.
e. Retaining and managing employees.

The dimensions and indicators of digital leadership are derived from the theory of Van Wart et al., (2019), which states that there are six dimensions of digital leadership, namely:

1) *Digital* Communication Skills
   a. Clarity of communication
   b. Lack of miscommunication
   c. Communication Flow Management
2) *Digital Social* Skills
   a. Good leadership support
3) *Digital* Team Building Skills
   a. Team motivation
   b. Team responsibility
   c. Recognition of team members and the team.
4) *Digital Change Management* Skills
   a. Change management
5) *Digital Technological* Skills
   a. Cost adjustment based on IT.
   b. Combining traditional and digital methods
   c. Digital technology expertise
   d. Digital technology security
6) *Digital Trust*worth*iness*
   a. Trust in the social environment
   b. Work-life balance
   c. Diversity Management.

The indicators in this study are as follows:

1. Digital Communication Skills
2. Digital Social Skills
3. Digital Team Building Skills

4. Change Management Skills
5. Digital Technology Skills
6. Digital Trust

2.2 Organizational Culture

Organizational culture is a fundamental aspect of every institution, defining the shared values, beliefs, and behaviors that shape how members interact and work together. Organizational culture influences organizational effectiveness, employee satisfaction, and overall success. Various experts have provided definitions of organizational culture, each emphasizing different aspects of this complex phenomenon.

Organizational culture is a set of values, beliefs, norms, and practices that develop within an organization and guide the behavior of its members. This culture is shaped by the organization's history, leadership, and patterns of interaction between individuals, and plays an important role in shaping employee performance and loyalty (Schein, 2010; Hartnell et al., 2021). A strong organizational culture that is aligned with the company's vision and mission can create a conducive work environment, encourage productivity, and strengthen cohesion among team members (Cameron & Quinn, 2021). According to Denison et al., (2020), the four main dimensions of organizational culture that influence organizational performance are as follows:

1. involvement, which refers to the extent to which employees are involved and empowered in the organization.
2. Consistency highlights the importance of shared values, agreements, and strong coordination and integration systems.
3. Adaptability refers to an organization's ability to respond to external changes, innovate, and take risks.
4. Mission represents the direction and goals of the organization. The mission ensures alignment between the long-term vision and day-to-day operations.

A culture oriented towards learning and innovation, for example, has been shown to encourage an increase in an organization's ability to adapt to changes in the external environment. In the context of organizations undergoing digital transformation, a flexible and innovation-supportive organizational culture is essential for organizations to remain competitive and survive in a dynamic market (Alvesson & Sveningsson, 2020) . The indicators of organizational culture in this study are:

1. Engagement
2. Consistency
3. Adaptability
4. Mission

2.3 Employee Innovation

Employee innovation is the ability of individuals within a company to generate new ideas, improve work processes, or implement creative solutions that have a positive impact on organizational performance. These innovative ideas can come from various levels, ranging from daily activities to the development of new products or services. Amidst disruption and digital transformation, employee innovation has become an important factor in increasing the competitiveness and survival of companies (Anderson et al., 2023)

Based on recent research, factors such as transformational leadership, a corporate culture that supports creativity, and employee empowerment are highly influential in driving innovation (Yuan & Woodman, 2020). When employees feel psychologically secure, supported by their superiors, and given room to experiment, they are more likely to generate innovative ideas and solutions that can improve work efficiency and quality (Shanker & Bhanugopan, 2020). In addition, the use of digital technology also enables faster collaboration and access to information, thereby strengthening employees' ability to innovate (Susanti & Prasetyo, 2021). A work environment that is flexible to change and appreciates new ideas increases employee engagement and intrinsic motivation to innovate. Therefore, companies that want to survive in the midst of fierce business competition need to create a work climate that supports innovation as part of a sustainable human resource management strategy (Chen, 2006). According to Jong & Hartog, (2010), the indicators of innovative work behavior are as follows:

a. Idea Exploration
   Employees are able to identify opportunities or problems within the company and then create new ideas to solve these problems.
b. Developing ideas (Idea Generation)
   Employees are able to develop ideas that have been created and introduce these ideas for new processes to their colleagues.
c. Seeking support for ideas (Idea Championing)
   Employees are encouraged to seek support for the ideas they have developed in order to bring these new innovations to fruition.
d. Implementing ideas (Idea Implementation)
   Employees have the courage to implement these new ideas into the company's usual work processes.

2.4 Technology Readiness

Technology readiness is the level of readiness of individuals or organizations to accept and use new technologies to improve efficiency, effectiveness, and competitiveness. This concept was introduced by Parasuraman through the Technology Readiness Index (TRI) model, which measures four main dimensions: optimism, innovation, discomfort, and insecurity. Technology readiness is important in the context of digital transformation because it determines how quickly and effectively technology can be adopted by human resources within an organization (Nguyen & Hsieh, 2022).

In an organizational context, technological readiness is closely related to digital culture, technology training, managerial support, and adequate digital infrastructure. A high level of technological readiness encourages innovation, the adoption of new systems, and data- -based decision-making (Nguyen & Hsieh, 2022). Research shows that organizations with high technological readiness are better able to cope with technological change and adapt more quickly to digital disruption, particularly in the public service, education, and manufacturing sectors (Alsabawy & Cater-Steel, 2021).

The existence of technological readiness as an intervening variable is reinforced by various studies showing that the

implementation of technological systems and digitalization in organizations cannot only be done through one-way policies, but through a combination of strong digital leadership and an adaptive organizational culture. For example, Nugroho Y., (2020) found that the implementation of banking digitalization directly increases employee effectiveness and productivity, which certainly requires technological readiness as a basic skill. Thus, this readiness becomes a link between leadership policies and organizational culture towards tangible outputs in the form of employee work innovation. Innovation here includes creative ideas to improve business processes, services, and the development of new products and services.

According to TRI Parasuraman & Colby, (2015), the indicators of technological readiness are as follows:

1. Optimism
2. Innovativeness
3. Discomfort
4. Insecurity

2.5 Relationship Between Variables

2.5.1 The Influence of Digital Leadership on Employee Innovation

Digital leadership plays an important role in creating an innovative work environment. Leaders with digital competencies are able to encourage employees to adapt to technological changes, provide the necessary resources, and set an example in the application of new technologies. According to transformational leadership theory (Bass & Avolio, 1994), visionary leaders can motivate their followers to transcend personal interests and contribute to organizational goals, including through innovative behavior.

Juvika, (2023) research shows that digital transformational leadership has a positive effect on organizational innovation through the mediating role of intellectual capital. Similar results were shown by (Fadhlan et al., 2022), who found that digital leadership can improve innovation management and company competitiveness. Thus, digital leadership theoretically and empirically has a significant effect on employee innovation.

2.5.2 The Influence of Organizational Culture on Employee Innovation

Organizational culture is one of the internal factors that greatly determines the level of employee creativity and innovation. According to Denison's (1990) organizational culture theory, the dimensions of involvement, consistency, adaptability, and mission have a direct influence on innovative behavior. An inclusive work environment that is open to new ideas and provides space for employees to experiment will strengthen their confidence in innovating.

Research by Yuan & Woodman, (2020) confirms that an organizational culture that supports employee creativity can improve the quality and quantity of innovation. Cameron & Quinn (2021) also found that a culture based on learning and flexibility improves organizational adaptation to external changes. Thus, a healthy organizational culture is the foundation for employee innovation.

2.5.3 The Influence of Digital Leadership on Technological Readiness

Digital leadership not only encourages innovation but also influences employees' readiness to use technology. Leaders who provide training, guidance, and digital infrastructure support will increase employees' confidence in using new technologies. This is in line with the Technology Acceptance Model (Davis, 1989) theory, which emphasizes that perceptions of technology's ease and usefulness influence attitudes toward technology acceptance. Research by Van Wart et al., (2019) reveals that digital leaders who have communication, change management, and technological skills are able to increase employee digital readiness. Nguyen et al. (2022) add that organizations with strong digital leadership tend to have higher levels of technological readiness, which ultimately accelerates digital transformation.

2.5.4 The Influence of Organizational Culture on Technological Readiness

An organizational culture that supports learning, adaptability, and collaboration will make it easier for employees to accept and use new technologies. The Learning Organization theory proposed by Senge, (1990) states that organizations that emphasize continuous learning are better prepared to face change, including in terms of technology implementation.

Denison et al. (2020) emphasize that a culture of adaptability is key to keeping organizations competitive in the digital age. Alvesson & Sveningsson (2020) also found that companies with a flexible culture adapt more quickly to digitalization. Therefore, organizational culture plays an important role in building employee technological readiness.

2.5.5 The Influence of Technological Readiness on Employee Innovation

Technological readiness is an individual and organizational factor that is directly related to the ability to innovate. The Technology Readiness Index model (Parasuraman & Colby, 2015) shows that optimism and a tendency to innovate encourage individuals to utilize technology, which then facilitates the emergence of new ideas. Conversely, discomfort and distrust of technology can be barriers to innovation.

Research by Alsabawy & Cater-Steel, (2021)proves that a high level of technological readiness increases the success of digital-based innovation. Shanker & Bhanugopan, (2020) also state that employees who are confident in using technology are more likely to engage in innovative work behavior. This shows that technological readiness is an important prerequisite for innovation in the digital age.

2.5.6 The Influence of Digital Leadership on Employee Innovation Through Technological Readiness as an Intervening Variable

The relationship between digital leadership and innovation is often mediated by technological readiness. This means that digital leaders can effectively encourage innovation if employees already have skills and a positive attitude toward technology. This mediation theory is in line with *the Resource-Based View* (Barney, 1991) , which states that internal resources such as technological competence serve as a link between leadership strategy and competitive advantage.

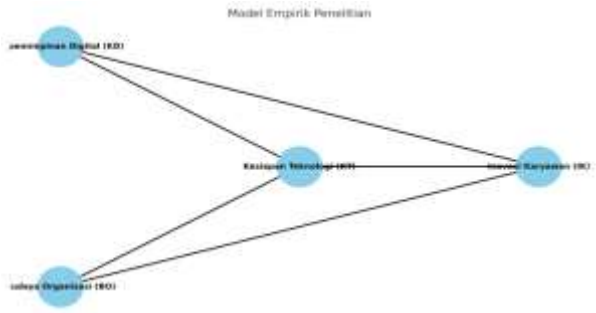
Nguyen et al. (2022) show that digital leadership increases technological readiness, which then has a positive effect on innovation. Thus, technological readiness functions as an intervening variable that strengthens the relationship between digital leadership and employee innovation.

2.5.7 The Influence of Organizational Culture on Technological Readiness for Employee Innovation Through Technological Readiness as an Intervening Variable

An organizational culture that supports change and learning can also increase technological readiness, which in turn encourages innovation. Within the framework of *Innovation Diffusion Theory* (Rogers, 2003), an innovative organizational culture creates an environment conducive to technology adoption, thereby accelerating the birth of innovation.

Puspitadewi's (2019) research found that the implementation of banking digitalization is only successful if it is supported by employee technological readiness, which is influenced by organizational culture. This reinforces the view that organizational culture not only has a direct effect on innovation but also plays a role through technological readiness as a mediator. This section can be reinforced with an empirical model diagram (conceptual framework/hypothesis) that visualizes the direction of the relationship between variables.

The empirical model of this study is constructed based on a review of theory and previous research results. Digital Leadership and Organizational Culture are positioned as exogenous variables that are assumed to influence Employee Innovation both directly and indirectly. Technological Readiness is placed as a mediating variable because, in the context of digital transformation, the influence of leadership and culture on innovation is highly dependent on the extent to which employees are ready to accept, master, and utilize technology.



RESEARCH METHODS

This study uses an explanatory quantitative approach with the aim of testing the influence of digital leadership and organizational culture on employee innovation with technological readiness as an intervening variable at the Sarwodadi Makmur Abadi Semarang Outsourcing Company. The research population consisted of all employees, with the sample determined using purposive sampling based on the criterion of a minimum of one year of service, so that the number of respondents met the requirements for Structural Equation Modeling–Partial Least Squares (SEM-PLS) analysis, which is at least five to ten times the number of indicators used (Hair et al., 2019). Data were collected through a five-point Likert scale questionnaire, which was compiled based on theoretical indicators: digital leadership was measured through communication skills, social skills, team building, change management, technological skills, and digital trust (Van Wart et al., 2019) ; organizational culture through engagement, consistency, adaptability, and mission (Denison et al., 2020); employee innovation through idea exploration, idea development, support seeking, idea implementation, and idea implementation (Jong & Hartog, 2010); and technological readiness through optimism, innovation, discomfort, and distrust (Parasuraman & Colby, 2015). Data analysis was conducted with SEM-PLS using SmartPLS because it is capable of testing structural models with relatively small sample sizes and non-parametric data distributions. Model evaluation included testing the validity and reliability of constructs in the outer model, as well as testing the relationships between latent variables through R^2 values, path coefficients, and bootstrapping significance tests in the inner model. Based on a review of the literature, this study formulates seven main hypotheses that examine the direct influence of digital leadership and organizational culture on employee innovation, the influence of both on technological readiness, and the mediating role of technological readiness in strengthening the relationship between digital leadership and organizational culture with employee innovation. This section can be reinforced with an empirical model diagram (conceptual framework/hypothesis) that visualizes the direction of the relationship between variables.

RESULTS AND DISCUSSION

Descriptive Analysis

1. Outer Model Test

The outer model test shows that all indicators have a loading factor value above 0.70, with Composite Reliability (CR) greater than 0.70 and Average Variance Extracted (AVE) greater than 0.50. This means that all constructs meet the requirements of convergent validity and reliability. Thus, the instruments used are suitable for measuring the research constructs.

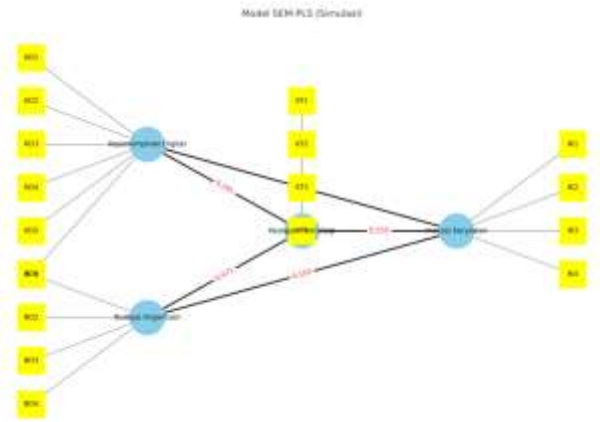
2. Inner Model Test

The inner model analysis results show that Digital Leadership and Organizational Culture can explain 35.5% of the variance in Technology Readiness, while the combination of these exogenous variables and Technology Readiness can explain 24.0% of the variance in Employee Innovation. Furthermore, the bootstrapping results show that most of the paths are significantly influential, except for the influence of Organizational Culture on Employee Innovation, which is only marginally significant. A summary of the tests can be seen in Table 1.

Table 1. Path Coefficients Test Results

Relationship	Coefficient (β)	t-stat	p-value	Description
KT ← KD	0.291	4.458	0.000	Significant
KT ← BO	0.471	6.438	0.000	Significant
IK ← KT	0.255	2.303	0.021	Significant
IK ← KD	0.188	2.268	0.023	Significant
IK ← BO	0.155	1.866	0.062	Marginal

In addition, the estimation results are also visualized in the SEM-PLS path diagram in Figure 1.



Discussion

The results of this study provide a number of important findings regarding the role of digital leadership and organizational culture in encouraging employee innovation through technological readiness. First, the analysis shows that Digital Leadership has a significant positive effect on Technological Readiness. This finding indicates that a leadership style that is able to utilize digital technology effectively will increase employee confidence and readiness to use technology in their daily activities. Van Wart et al. (2019) emphasize that digital leadership encompasses communication skills, technological mastery, change management, and digital trust. Leaders who are able to master these dimensions will be more successful in guiding employees in facing technological disruption.

Second, Organizational Culture has been proven to have a significant effect on Technology Readiness. These results are consistent with the framework proposed by Denison et al. (2020), which explains that an organizational culture characterized by engagement, consistency, adaptability, and a clear mission can increase an organization's responsiveness to technological change. In this context, an adaptive culture will encourage employees to be more open to system updates, digital work methods, and technology-based innovations. In other words, without a supportive culture, digital transformation tends to encounter resistance, even if digital leadership is already well established.

The next finding is that Technological Readiness has a significant effect on Employee Innovation. This shows that the higher the level of employee readiness in using technology, the greater their tendency to generate, develop, and implement new ideas. These results support the findings of Parasuraman & Colby (2015), which confirm that technological readiness is not only related to technical skills but also includes optimism, personal innovation, and a positive attitude towards technology adoption. With this readiness, employees feel more confident to explore innovation-oriented ideas.

In addition, this study found that Digital Leadership has a direct effect on Employee Innovation. This means that leaders who are able to integrate digital technology into the leadership process not only increase employee readiness but also directly encourage their innovative spirit. This is in line with Yukl, (2013) research, which explains that transformational and digital leadership can arouse intrinsic motivation, increase a sense of ownership of work, and stimulate innovative behavior. Digitally-oriented leaders are able to set an example, build a collaborative work climate, and provide space for employees to be creative.

Meanwhile, Organizational Culture toward Employee Innovation only shows a marginal influence. Although the relationship is positive, its statistical significance is weak. This indicates that organizational culture is more effective in encouraging innovation when mediated by technological readiness. These findings reinforce the argument that innovation in the digital era cannot rely solely on cultural values but requires the technical and psychological readiness of employees to adopt new technologies (Hadi, 2020). Thus, the role of technological readiness as a mediator becomes very important.

Overall, the results of this study confirm that technological readiness is a key variable that bridges the influence of digital leadership and organizational culture on employee innovation. This is consistent with the employee innovation theory proposed by De Jong & Den Hartog (2010), which emphasizes that innovation is the result of interactions between individual factors, leadership, and the organizational environment. In this study, leadership and culture factors were found to have a stronger influence on innovation when employees had adequate technological readiness.

The practical implication of these findings is that organizations, especially those engaged in outsourcing such as PT Sarwodadi Makmur Abadi Semarang, need to pay attention to two main things: first, strengthening digital leadership competencies at the managerial level; and second, building an organizational culture that is adaptive to technological changes. Both of these efforts must be directed at increasing employee technological readiness, both in terms of technical skills and mental attitudes towards digital innovation. If these three factors are managed synergistically, the opportunity for sustainable innovation in the workplace will be greater

Conclusion

This study aims to analyze the influence of digital leadership and organizational culture on employee innovation with technological readiness as a mediating variable. Based on the results of the analysis using SEM-PLS, several main conclusions were obtained. First, digital leadership was found to have a significant positive effect on both technological readiness and employee innovation. This shows that leaders with digital competencies are able to encourage employees to be better prepared to face

technological change while also increasing their innovative behavior.

Second, organizational culture has a significant positive effect on technological readiness, confirming that an adaptive and consistent organizational culture can strengthen employees' readiness to face digital transformation. However, the direct effect of organizational culture on employee innovation is only marginally significant, so that the role of culture is stronger when mediated by technological readiness.

Third, technological readiness has a significant influence on employee innovation. Employee readiness in utilizing technology has proven to be a determining factor that enables them to create, develop, and implement new ideas in the workplace.

Overall, the results of this study confirm that technological readiness plays an important mediating role in the relationship between digital leadership and organizational culture with employee innovation. Thus, the success of an organization in driving innovation depends not only on leadership and culture, but also on the readiness of employees to adopt technology that is relevant to the demands of the digital age.

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