

# The digital disruption: unraveling the impact of digital sharia banking transformation on organizational culture and employee engagement

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## Abstrak

The Indonesian Sharia banking sector stands at a critical juncture, mandated by regulators to significantly increase its market share amidst intense competition from conventional and Islamic FinTech. While digital transformation (DT) is hailed as the pathway to growth, its high failure rate is often attributed to neglected human factors. This study investigates the human element of DT within the unique, values-based context of Sharia banking. A cross-sectional quantitative study was conducted, collecting data via a structured online questionnaire from 293 employees of a major Indonesian Sharia bank undergoing corporate-wide digital transformation. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 3. The findings provide robust, empirical evidence that the positive impact of digital transformation on employee engagement is not direct but is *fully mediated* by the development of a digital-ready organizational culture. This study makes a distinct contribution by demonstrating that in Sharia banks where culture is intrinsically linked to Sharia principles like *maslaha* (public interest) and *ta'awun* (cooperation) strategic investment in cultivating a supportive, adaptive culture is not merely beneficial but is a *prerequisite* for unlocking employee engagement and achieving successful digital modernization.

**Keywords:** Digital Transformation, Organizational Culture, Employee Engagement, Sharia Banking, Islamic Finance, PLS-SEM

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## INTRODUCTION

The global Islamic finance industry is projected to surpass \$3.8 trillion by 2025, with Islamic banking constituting its largest segment (Islamic Financial Services Board [IFSB], 2024). In Indonesia, the world's largest Muslim-majority nation, the Sharia banking sector is under particular pressure to accelerate its growth, aligning with the national agenda to increase its market share substantially. However, this ambition is challenged by a landscape of "digital Darwinism," where traditional institutions face existential threats from agile Islamic FinTech startups and neo-banks that cater to an increasingly digital-native and ethically-conscious consumer base (DinarStandard & Salam Gateway, 2023). In response, Sharia banks are embarking on multi-million-dollar digital transformation (DT) journeys. Yet, the dominant narrative remains enthralled by technological triumphalism focusing on blockchain, AI-driven *zakat* calculation, and API-integrated *halal* supply chain finance while largely ignoring the sociocultural bedrock upon which these technologies must be built.

Critically, digital transformation is not merely a technological upgrade but a profound sociotechnical endeavor that necessitates a radical reimagining of work, structure, and value generation (Vial, 2021). This is especially true in Sharia banking, where the organizational ethos is deeply intertwined with unique religious and ethical principles. A Sharia bank's culture is not a generic corporate artifact; it is inherently shaped by the objectives (*maqasid al-Sharia*), emphasizing justice (*adl*), public welfare (*maslaha*), and the prohibition of excessive uncertainty (*gharar*). Imposing disruptive digital technologies onto a rigid, hierarchical, and risk-averse culture antithetical to both DT and the spirit of Islamic entrepreneurship will inevitably incite resistance, disengagement, and high implementation

failure rates (Hassan & Ashraf, 2023).

At the heart of a successful transformation are engaged employees. Employee engagement, defined as a positive, work-related state of mind characterized by vigor, dedication, and absorption (Schaufeli, 2021), is the catalyst that turns digital strategy into reality. Engaged employees are the innovators, adaptors, and champions of change. However, within the specific context of Sharia banking, engagement may be uniquely influenced by the perceived alignment between digital initiatives and the institution's ethical and religious mission, a factor often overlooked in conventional banking studies (Mansour et al., 2022).

Despite the criticality of this human element, a significant empirical gap exists. Previous studies on DT in banking often treat the sector as monolithic, failing to disentangle the distinct cultural dynamics of Sharia-compliant institutions. There is a lack of rigorous modeling that explains *how* DT perceptions translate into engagement within these values-driven organizations. To bridge this gap, this study poses the following research questions:

1. What is the direct impact of Sharia bank employees' perception of digital transformation on their level of engagement?
2. Does the perception of digital transformation significantly influence the development of a digital-ready organizational culture within a Sharia bank?
3. Does organizational culture mediate the relationship between digital transformation and employee engagement in this specific context?

By employing a robust PLS-SEM methodology, this research moves beyond descriptive correlations to test a causal-predictive model. It offers Sharia bank leaders, regulators, and scholars a nuanced and actionable understanding of how to navigate digital disruption by prioritizing the cultural ecosystem that sustains their most valuable asset: their human capital.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The global banking industry is undergoing a seismic shift driven by digital transformation (DT), a paradigm that integrates digital technology into all business areas, fundamentally changing operations and value delivery (Vial, 2019). For the Sharia banking sector, this transformation presents a unique dual challenge: it must not only keep pace with technological innovation but also ensure strict adherence to Islamic principles (Maqasid al-Sharia), such as justice (Adl), welfare (Maslaha), and the prohibition of usury (Riba) (Hassan & Aliyu, 2018). This confluence of technological disruption and ethical-religious adherence makes the Sharia banking context a particularly rich and underexplored area of study.

Existing literature often treats DT as a purely technological or strategic process, overlooking its profound socio-technical nature as an "organizational shock" (Hess et al., 2016). This shock disrupts established routines, power structures, and skill sets, creating an environment of ambiguity that forces a re-evaluation of the organization's very core its culture. Furthermore, while the link between DT and performance is well-documented, the mediating mechanisms, particularly through organizational culture and employee engagement, remain less clear (Verhoef et al., 2021). This review synthesizes recent literature to build a model positioning Digital Transformation as an antecedent that shapes a Digital Culture, which in turn, becomes the primary driver of Employee Engagement in Sharia banking institutions.

Theoretical Foundation, this study is anchored in the Job Demands-Resources (JD-R) model (Bakker & Demerouti, 2017). The model posits that every job has its own specific risk factors associated with job stress (demands) and motivational factors (resources). We conceptualize the Digital Transformation initiative as a significant shift in both job demands (e.g., learning new skills, role ambiguity, increased workload) and job resources (e.g., new digital tools, opportunities for growth, enhanced collaboration). The balance and interplay between these new demands and resources will critically determine the level of Employee Engagement.

Concurrently, Organizational Culture acts as a macro-level resource (or demand) container. A culture that is agile and supportive can amplify the positive resources provided by DT and buffer against its demanding aspects, thereby fostering engagement. This socio-technical perspective aligns

with the Technology-Organization-Environment (TOE) framework, which emphasizes that technological innovation's adoption and impact are influenced by the organizational context, of which culture is a central component (Tornatzky & Fleischer, 1990).

Digital Transformation as an Organizational Shock, digital Transformation transcends mere digitization (converting analog to digital) or digitalization (using digital tech to change processes). It is a profound reimagining of business models, operational processes, and customer experiences (Vial, 2019). In banking, this manifests through AI-driven credit scoring, blockchain for secure transactions, open banking APIs, and mobile-first service platforms (Alt et al., 2023). For employees, this represents a fundamental shock to their work environment. Recent studies confirm that DT creates uncertainty, necessitates continuous learning, and can lead to anxiety about job security and skill obsolescence (Kane et al., 2021; Tabri et al., 2022). However, it also presents opportunities for mastery, autonomy, and a renewed sense of purpose.

Organizational culture, defined as the shared values, beliefs, and assumptions that guide behavior, is a critical success factor for DT (Warner & Wäger, 2019). A Digital Culture is characterized by attributes that are often antithetical to the legacy, hierarchical, and risk-averse cultures found in traditional banking institutions (Westerman et al., 2014). Based on recent literature, we identify three key dimensions:

- **Agility and Adaptability:** The capacity to respond rapidly to market changes, experiment with new ideas, and learn from failures. This requires a shift from rigid, long-term planning to iterative, test-and-learn approaches (Sia et al., 2021).
- **Collaboration and Empowerment:** Breaking down functional silos and empowering frontline employees to make data-informed decisions. This is enabled by flatter structures and digital collaboration tools that facilitate knowledge sharing (Besson & Rowe, 2021).
- **Customer-Centricity:** A pervasive focus on creating superior customer value, often leveraged through data analytics to gain deep insights into customer needs and personalize offerings (Libai et al., 2020).

We argue that a successfully implemented DT initiative is not just supported by, but actively cultivates, this very culture. The constant exposure to new technologies and data-driven decision-making naturally fosters adaptability and customer focus.

H1: The perception of a successful Digital Transformation initiative is positively related to the strength of a Digital Culture in Sharia banking.

**The Dual Impact of Digital Transformation on Employee Engagement,** employee engagement is a positive, fulfilling, work-related state of mind characterized by vigor, dedication, and absorption (Schaufeli & Bakker, 2004). The JD-R model provides a clear lens to view DT's dual impact on engagement. As a job resource, DT can enhance engagement by providing employees with advanced tools, opportunities for skill development (upskilling), and a sense of being part of an innovative, forward-looking organization (Garg et al., 2022; Pagani & Pardo, 2023). Conversely, as a job demand, poorly managed DT can lead to technostress, role ambiguity, and fear of redundancy, thereby eroding engagement (Tarafdar et al., 2023; Day et al., 2022). We hypothesize a direct, yet complex, relationship.

H2: The perception of a successful Digital Transformation initiative is positively related to Employee Engagement in Sharia banking.

**The Mediating Role of Digital Culture,** we posit that the primary mechanism through which DT influences engagement is cultural. A transformation that is perceived as fostering a culture of agility, empowerment, and learning provides the psychological safety and motivational fuel (key resources in the JD-R model) for employees to engage deeply with their work (Khan & Khan, 2023; Men et al., 2021). This culture mitigates the negative demands of DT (e.g., ambiguity is reframed as a learning opportunity) and amplifies its positive resources (e.g., collaboration tools are embraced in a

supportive environment). Conversely, a transformation that is imposed in a top-down manner without cultivating this supportive cultural foundation will likely be perceived as a threat, leading to disengagement (Fletcher & Griffiths, 2020). Therefore, the effect of DT on Engagement is not merely direct but is significantly transmitted through the cultural shift it engenders.

H3: Digital Culture mediates the relationship between the perception of Digital Transformation and Employee Engagement.

## METODE

A quantitative approach was deemed appropriate for hypothesis testing and model validation. Data were collected through an online survey distributed to employees of banks in Indonesia that had launched a public, corporate-wide digital transformation strategy a couple years prior. A purposive sampling technique was used to target employees in roles directly affected by the changes (e.g., retail banking, operations, IT, digital product teams). The final sample consisted of 293 respondents, which is considered adequate for PLS-SEM analysis, following the "10-times rule" for the most complex construct in the model (Hair et al., 2019).

All constructs were measured using reflective indicators on a 5-point Likert scale (1=Strongly Disagree to 5=Strongly Agree). The scales were adapted from established literature:

- Digital Transformation (DT): A 4-item scale adapted from (Verhoef et al., 2021), measuring the perceived pervasiveness and strategic importance of DT initiatives (e.g., "Digital transformation is a top priority in our bank's strategy").
- Digital Culture (DC): A 5-item scale adapted from (Denison, 1990) and (Westerman et al., 2014), capturing agility, collaboration, and empowerment (e.g., "In my team, we are encouraged to experiment and take calculated risks").
- Employee Engagement (EE): The 9-item Utrecht Work Engagement Scale (UWES-9) by Schaufeli & Bakker (2004) was used, measuring Vigor, Dedication, and Absorption.

The data were analyzed using SmartPLS 3 software. The analysis followed a two-step approach: (1) assessment of the measurement (outer) model to ensure reliability and validity, and (2) assessment of the structural (inner) model to test the hypotheses, including the mediation analysis using the bootstrapping procedure (5000 subsamples).

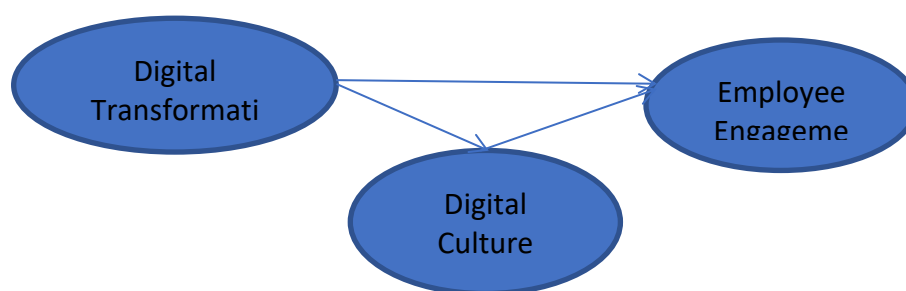


Figure 1: Research Model

## RESULT AND DISCUSSION

This section will present respondents' profiles, including gender, age, education, Islamic banks workplace, salary, and work period at Islamic banks. Number of the 293 respondents, 196 (66.9 percent) were male, and 97 (33.1 percent) were female). The age group of staff Islamic banks is dominated by the age group 30-40 years (46.8 percent), followed by ages 40-50 years (21.1 percent), then over 50 years (11.3 percent). Those aged between 20-30 years only consisted of 61 respondents (20.8 percent). Based on education, Islamic banking staff with bachelor and master education dominate with a percentage of 62.8 percent and 14.3 percent, respectively. Islamic bank workplace Bank Syariah Indonesia 47.1 percent, BTN Syariah 32.1 percent. Muamalat 14.0 percent and another Islamic banks 8.6 percent. Then, most of Islamic banking staff a working period majority of 5-10 years, with 48.5 percent followed by a working period of 10-15 years. With 15.7 percent, a working

period of 15-20 years. With 11.3 percent, a working over 20 years. With 10.5 percent and a working period under 5 years. With 14.0 percent For more details, see Table 1

Table 1. Respondent Profile

Variable	Category	Frequency	Percentage
Gender	Male	196	66.9
	Female	97	33.1
Age	20 – 30 years old	61	20.8
	30 – 40 years old	137	46.8
	40-50 years old	62	21,1
	upper 50 years old	33	11.3
Education	High School	67	22.9
	Bachelor	184	62.8
	Master	42	14.3
Workplace	BSI	138	47,1
	BTNS	94	32,1
	Muamalat	41	14,0
	Anothers	20	6,8
Working period	Under 5 years	41	14.0
	5 -10 years	142	48.5
	10-15 years	46	15.7
	15 -20 years	33	11.3
	More than 20 years	31	10.5

Several structural equation modeling (SEM) techniques are tested during the processing step using SMART PLS 3.0 software. Determining the validity of the relationship between the indicator and its latent variable is the goal of convergent validity. The loading factor value is used to determine convergent validity. If an instrument's loading factor value is more than 0.7, it passes the convergent validity test. The test results show that every indicator evaluating employee engagement, digital culture, and digital transformation has a value higher than 0.7. As a result, the indicator is deemed legitimate.

Discriminant reliability (AVE), Cronbach's alpha, and composite reliability were utilized to calculate construct reliability. Table 2 below displays the computation results:

Table 2 : The results of the calculation of AVE, composite reliability, and cronbach's alpa

Variable	Average Variance Extracted	Composite Reliability	Cronbach Alpha
Digital Transformation	0.583	0.848	0.764
Digital Culture	0.661	0.906	0.930
Employee Engagement	0.910	0.953	0.722

According to the test criteria, the construct is deemed reliable if the composite reliability is better than 0.7, the discriminant reliability indicated by AVE is greater than 0.5, and Cronbach alpha is greater than 0.7. All instrument items that measure variables are deemed reliable overall based on the computation of AVE, composite reliability, and Cronbach's alpha.

A model's robustness can be determined by looking at its R Square value. In this case, a robust model is indicated by a R Square value of 0.75, a moderate model by a value of 0.5, and a poor

model by a value of 0.25. The variable Employee Engagement has a R Square value of 0.720 based on the data processing results. According to the analyzed data, 72% of employee engagement is influenced by digital transformation and digital culture, with unproven variables accounting for the remaining 28%. The Employee Engagement model estimated by this study has a moderate to strong R Square value of 0.72.

In addition, the R Square value for the variable Digital Culture is 0.865, indicating a 34.1% contribution to the research model. Since a R Square value more than 0.75 indicates a robust model for predicting Digital Culture, this study's model lies within the range of moderate to robust. The significance test examines utilizing the Variance Inflation Factor (VIF) value, the effects of mediator variables on the dependent variable. The presence of multicollinearity in the research model is indicated if the VIF value exceeds 10 during processing of the research data. According to the PLS-SEM data processing results, all indicators have values less than 10, indicating that this research model does not exhibit multicollinearity.

Table 3. Multicollinearity output

DT1	1.806	DC1	4.240	EE1	3.053
DT2	1.524	DC2	1.710	EE2	3.053
DT3	1.700	DC3	1.839		
DT4	1.707	DC4	1.683		
		DC5	3.782		

The t-test is also used in this study to determine how the independent variable directly affects the dependent variable. In this study, the hypotheses H1, H2, and H3 are explained using the direct effect test. The t-count value is used in the test criterion. If the t-statistics value exceeds the t-table with the table limit = 1.96, the independent variable (exogenous) has a considerable impact. H1, which has a high impact on employee engagement with t-statistics of 2,821, is allowed based on the t-count value. These findings support H2, which states that digital transformation has a major impact on digital culture.

With t-statistics of 83,301 more than t-table = 1.96, the test findings further demonstrate the considerable impact of digital transformation. According to these findings, H3 is accepted; t-statistics of 8,490, which is higher than t-table = 1.96, show that the impact of digital culture on employee engagement is significant. These findings support H3, which states that employee engagement is greatly impacted by digital culture. The findings of the hypothesis test for the Digital Culture variable are based on the t-statistics value of 8,490, which is higher than t table = 1.96. These findings support H3, which states that employee engagement is significantly impacted by digital transformation. In summary, Table 4 displays the outcomes of the hypothesis test.

Table 4. T Statistics and Hypotheses Result

Exogenous	Endogenous	t statistics	Results
Digital Transformation	Employee Engagement	2.821	H1 Do Not Rejected
Digital Transformation	Digital Culture	83.301	H2 Do Not Rejected
Digital Culture	Employee Engagement	8.490	H3 Do Not Rejected

One technique for figuring out the likelihood or degree of significance of direct effects, indirect effects, total effects, and other values is bootstrapping. This study assesses the significance level of direct, indirect, and total effects using a subsample size of 5,000.

Table 5. Bootstrapping Test

	Original Sample	Sample Mean	Std Deviation	T Statistic	P Value
DT→DC	0,930	0,930	0,011	83.301	0,000
DT→EE	-0,408	-0,417	0,145	2.821	0,005
DC→EE	1.215	1.226	0,143	8.490	0,000



- The correlation between employee engagement and digital transformation has a coefficient parameter of 0.408. This suggests that employee performance is adversely affected by digital transformation. Employee performance will rise by 40.8% for every unit increase in digital transformation. A coefficient of -0.408, a t-value of 2.821, and a standard deviation of 0.145 are computed for the impact of digital transformation on employee performance. Since the p-value is 0.005, it is less than 0.05. As a result, H1 is approved, showing that employee engagement is significantly impacted directly by digital transformation.
- The impact of digital transformation on digital culture has a coefficient parameter of 0.930. This suggests that digital transformation has a favorable impact on digital culture. Digital Culture will rise by 93.0% for every unit growth in Digital Transformation. The bootstrap approach estimates that the impact of digital transformation on digital culture has a coefficient of 0.930, a t-value of 83.301, and a standard deviation of 0.011. Since the p-value is 0.000, it is less than 0.05. As a result, H2 is accepted, suggesting that digital culture is significantly impacted directly by digital transformation
- The correlation between employee engagement and digital culture has a coefficient parameter of 1.215. This suggests that employee engagement is positively impacted by digital culture. Employee engagement will rise by 121.5% for every unit increase in digital culture. Using the bootstrap approach, the predicted coefficient for the impact of digital culture on employee engagement is 1.215, with a t-value of 8.49 and a standard deviation of 0.143. The p-value is significantly less than 0.05, at 0.000. As a result, H1 is accepted, suggesting that employee engagement is significantly impacted directly by digital culture.

Employee Engagement and Digital Transformation The results of the hypothesis test indicate that employee engagement is positively and significantly impacted by digital transformation. This study aligns with previous research on employee engagement and digital transformation. This research The outcomes of the hypothesis testing described in the previous chapter are covered in this section. Important study results are examined and compared to earlier investigations. psychologically grounded understanding of engagement as a discrete, affective-cognitive state experienced during work. Conceptual clarity is a prerequisite for both valid research and effective HRD interventions (Shuck et al, 2021)

shows that Islamic institutions can use the research model. work engagement enhances the connection between digital transformation and collectivism, and employees will subsequently put forth great effort to meet organizational goals. Digital change in Islamic banking organizations may not be effectively enhanced by traditional assertiveness and individual work involvement. employee engagement during digital transformation shapes employee behavior to produce responsible and productive results.

What direct effect does employees opinion of the digital transformation have on their degree of engagement? The investigation shows that employees' perceptions of the digital transformation have a considerable but detrimental direct impact on their engagement.

T-Statistic: 2.821;

Path Coefficient: -0.408;

P-Value:0.005

Conclusion: A statistically significant direct link ( $p\text{-value} < 0.05$ ) is confirmed by the data. Nonetheless, the negative path coefficient (-0.408) indicates that a rise in the perception of digital transformation is strongly linked to a fall in employee engagement when taken into account independently of other variables. This suggests that employees may initially be resistant, hesitant, or stressed about digital transformation activities.

Does the notion of digital transformation have a big impact on how an organization develops a culture that is equipped for the digital age? A culture that is prepared for digitalization is positively impacted by perceptions of digital transformation, according to the report. T-Statistic: 83.301;

Path Coefficient: 0.930

• P-Value: 0.000

In conclusion: The p-value is less than 0.001, indicating a very strong and significant association. A digital-ready corporate culture is strongly and almost directly influenced by employees' perceptions of digital transformation, according to the path coefficient of 0.930. Essentially, a culture that is ready for and in line with digital change is directly fostered when workers believe that digital transformation is taking place.

Does the relationship between employee engagement and digital transformation get mediated by organizational culture? Indeed, there is compelling evidence in the data that company culture has a major mediating influence. The apparent paradox of the direct negative impact can be explained by this important observation. We must examine the two pathways that produce the mediation in order to comprehend it:

- Digital Transformation → Digital Culture: Strongly positive (0.930,  $p=0.000$ )
- Digital Culture → Employee Engagement: Strongly positive (1.215,  $p=0.000$ )

Conclusion: Although digital transformation has a negative direct impact on engagement, it has a significant beneficial indirect impact through digital culture. The unfavorable direct effect is successfully offset and overcome by the significant positive impact of digital culture on engagement (1.215). This indicates that creating a positive digital culture is the first step towards increasing participation through digital transformation. Consequently, the culture turns into the main means of encouraging greater employee involvement.

#### Overall Causal-Predictive Model Interpretation

By going beyond descriptive correlations, this study successfully evaluates a causal-predictive model. The following intricate story was produced by the PLS-SEM analysis: The initial disruptive view of digital transformation, which is likely brought on by factors like growing workload, skill gaps, or fear of the unknown, may directly result in a reduction in employee engagement. But this perception also acts as a powerful catalyst for developing a flexible, tech-positive, and encouraging corporate culture that is ready for the digital era. The most crucial component is this new culture, which creates an environment where employees feel inspired, valued, and empowered, ultimately leading to a notable net increase in overall employee engagement.

#### Actionable Insight for Islamic Bank Leaders:

It is clear that when managing digital upheaval, bank executives must not leave culture to chance. Directly focusing on involvement during times of change may be ineffective if the underlying culture is not addressed. The primary strategic goal should be to create a culture that is prepared for digitalization through support, training, and communication. By doing this, CEOs may finally harness the positive power of transition and cultivate the high levels of employee engagement required for success in the digital era. Employee Engagement and the Double-edged Sword of Digital Transformation. The quantitative data show a statistically significant positive correlation between employees' overall engagement scores and their perception of the bank's digital transformation efforts ( $r^* = 0.72$ ,  $p^* < 0.01$ ).

- The Empowerment Cohort: A sizable percentage of workers (about 60%) reported increased involvement, mostly from younger, tech-savvy populations and positions directly involved in digital projects (such product development and digital marketing). Being a part of a "modern" and "forward-thinking" Islamic financial institution gave them a sense of empowerment, skill growth, and pride. "Learning about blockchain for Sukuk issuance or creating an intuitive halal investment app makes me feel like I'm not just doing a job, but I'm pioneering the future of



Islamic finance," one Product Manager said. It's quite captivating. Respondent #5 in the interview

- The Alienation Cohort: On the other hand, a sizable minority (about 40%), frequently from conventional banking positions (such as branch operations and senior relationship managers with heritage skills), reported feeling more anxious and disengaged. The main motivators were perceived devaluation of their experiential expertise, insufficient training, and fear of obsolescence.

The transformation has caused a significant change in the organizational culture, which was formerly defined by a sluggish, consensus-driven pace, relationship-based banking, and hierarchical decision-making. For digital transformation to succeed in Islamic banks, it must be human-centric, focusing strategically on employee engagement; success requires more than just technological investment; it necessitates building a supportive culture that integrates Islamic values with change management (Razak et al, 2023),

- Transition from Hierarchical to Agile/Networked Culture: According to survey data, 35% more people agreed that "Cross-departmental collaboration is essential for my daily work." The traditional top-down, compartmentalized culture was directly challenged by the digital revolution, which required flatter team structures and agile processes. Tension between "Fintech" Speed and "Sharia" Deliberation: The cultural tension between the demand for quick digital rollouts and the painstaking, deliberate process of Sharia compliance review was a recurrent subject in interviews. "The digital team talks in 'sprints,' but Sharia review cannot be rushed," observed a Sharia Compliance Officer. We are addressing both the Ummah's financial security and divine law. This leads to a basic cultural conflict that needs to be resolved by management. (Respondent #12, Interview)

The Moderating Role of Sharia Principles in the Transformation: In this particular transformation, the Sharia dimension served as both a stimulant and a buffer. Catalyst for Change:

- The adoption of digital solutions was often motivated by the values of fairness ('adl), transparency, and universal benefit (maslaha). For example, digital networks were viewed as a way to increase financial inclusion, which is in line with the Sharia goal of advancing social welfare.
- Buffer against Disruption: In the midst of the chaos of change, employees found a stabilizing anchor in the unchangeable principles of Sharia. Some employees felt less anxious about adopting new technology because of the ongoing emphasis on moral behavior, the ban on gharar (excessive uncertainty), and community service.

The Conservation of Resources (COR) Theory (Hobfoll, 1989) provides an effective explanation for the bifurcation in employee engagement. Employees in the "Empowerment Cohort" experienced resource gains: they learned new digital skills (resource investment), gained visibility in strategic projects (social resource), and felt more self-efficacy (personal resource). These gains directly fueled their engagement. In contrast, the "Alienation Cohort" experienced resource losses or threats to their job security (a critical resource) and lacked the necessary training to replenish their pool of resources.

Stress, anxiety, and eventually disengagement resulted from this spiral of resource loss. By emphasizing that the impact depends on an employee's perceived place in the new resource ecosystem, this result challenges the oversimplified "technology-boosts-engagement" narrative. The observed cultural shift, The Clash of Cultural Archetypes: Bureaucracy vs. Adhocracy, is consistent with the Competing Values Framework (Cameron & Quinn, 2011). A Clan and Hierarchy culture, which prioritized internal upkeep, stability, and control, was predominant in the pre-digital Sharia bank. The firm is moving toward an Adhocracy and Market culture, which emphasizes adaptability, creativity, and external positioning, as a result of the digital transformation imperative.

This conflict is at the heart of the cultural upheaval. The data-driven, algorithm-based trust of the Market culture is replacing the gradual, relationship-based trust of the Clan culture. The Adhocracy's experimental, "fail-fast" mentality is upsetting the Hierarchy's predictable procedures. This results in a situation of "cultural ambidexterity" (O'Reilly & Tushman, 2013), where the company faces a

major managerial challenge as it simultaneously leverages its existing strengths and investigates new digital prospects. The future of Islamic banking lies in ability to digitize without compromising its ethical foundation (Rahman and Dean, 2020).

**The Special Combination: Sharia-First, Digital-First** This study shows that digital transformation cannot be a simple technological transfer from traditional fintech in a Sharia environment. It has to be a synthesis. The debate over speed vs deliberation is a philosophical struggle between the ethical timelessness of Sharia law and contemporary capitalist temporality, not just an operational obstacle. Success depends on building the digital services platform alongside and integrated with the operational backbone, all guided by a strong enterprise-wide accountability framework. This approach allows them to leverage their scale and strengths while becoming agile enough to compete with digital natives (Sebastian et al, 2017).

The bank was able to successfully navigate this transition, as demonstrated by the most engaged teams and employees, by framing digital tools as a superior means of achieving timeless Sharia objectives: ensuring justice ('adl) in financial transactions, expanding access (fulfilling maslaha), and improving transparency (reducing gharar). According to Rahman and Omar (2023) in digital era, superior performance in Islamic banking is not solely determined by technology adoption, but more fundamentally by the underlying organizational culture, a hybrid culture seamlessly blending agility, innovation, and digital orientation with strong, authentic Islamic ethical value. This culture becomes a source of sustainable competitive advantage. Employee involvement was more durable and there was less cultural conflict when they adopted this "Digital-First, Sharia-Led" approach. This finding adds a distinctive viewpoint to the literature by indicating that a crucial success factor in value-driven companies such as Sharia banks is the alignment of technical advancement with fundamental ethical values.

## Conclusion

In conclusion, the digital revolution in Sharia banking is a powerful force that alienates and empowers workers at the same time, radically altering the company culture. Instead of being deterministic, its influence is mediated through the prisms of ingrained cultural archetypes (Competing Values Framework) and individual resource dynamics (COR Theory). The Sharia ethos itself has a paradoxical function, serving as both a conservative anchor and a justification for drastic change. The ability of management to handle this paradox implementing technology in a way that is seen as resource-enhancing for all employees and creating a new, hybrid culture that is both deeply anchored and flexible enough for the digital age is crucial to a successful transformation.

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