

CHAPTER 2

LITERATURE REVIEW

2.1. Leadership and Employee Needs

Maslow's hierarchy of needs theory serves as a foundational framework for understanding human motivation, proposing that individuals are driven to fulfill a progression of needs, from basic physiological needs to self-actualization (McLeod, 2024). This model is particularly relevant in organizational settings, where effective leadership must align with the diverse needs of employees to foster engagement, resilience, and retention. Leaders who address these needs create a work environment where employees feel valued, motivated, and empowered, directly influencing organizational outcomes such as turnover rates and productivity.

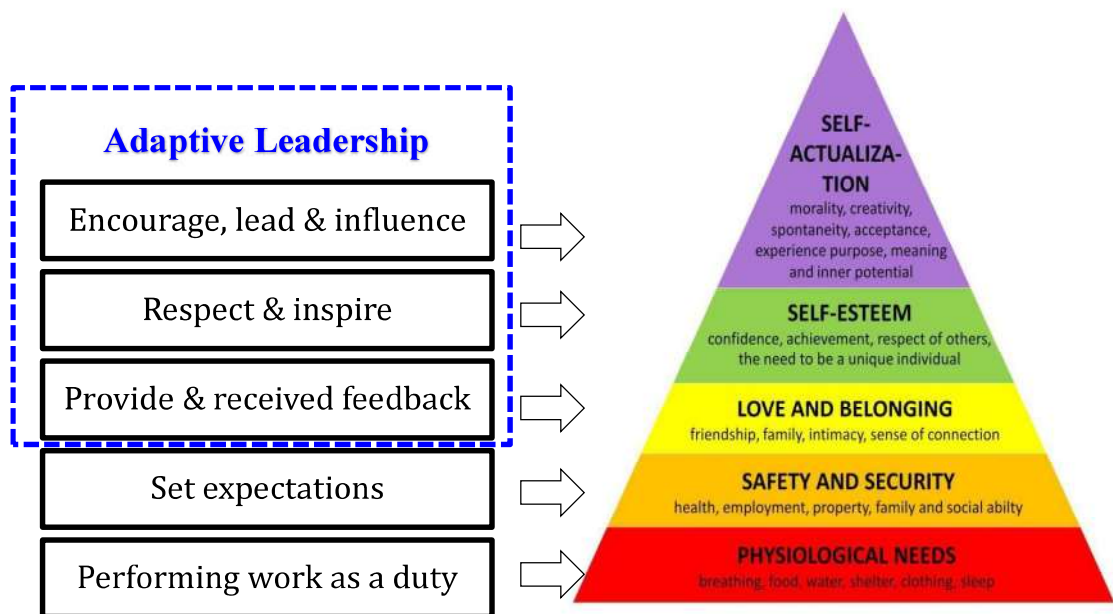


Figure 2. 1 Maslow's Motivation Theory (McLeod, 2024)

Adaptive leadership, as conceptualized by Heifetz et al. (2009) emphasizes the importance of mobilizing individuals to address complex challenges, often by creating a supportive environment that aligns with their intrinsic needs. This leadership approach resonates with Maslow's theory, as it recognizes the significance of addressing lower-level needs, such as job security and safety, while simultaneously fostering higher-order needs, including esteem and self-actualization. For example, adaptive leaders who encourage autonomy and provide opportunities for professional growth contribute to employees' sense of competence and fulfillment, aligning with Maslow's self-actualization and esteem needs.

Resilience, defined as the capacity to recover from adversity, is influenced by the extent to which employees perceive their environment as supportive and aligned with their needs. According to Daia et al. (2019), resilience is enhanced when employees experience low levels of abusive supervision and high levels of supportive leadership. Adaptive leadership promotes resilience by addressing the psychological needs of employees, such as autonomy and relatedness, as described in self-determination theory (Deci & Ryan, 2020). This focus on psychological well-being supports Maslow's higher-order needs, ensuring that employees feel equipped to navigate workplace challenges.

Adaptive leaders play a pivotal role in fostering engagement by creating a holding environment that provides psychological safety and challenges employees to grow. This approach aligns with Maslow's framework, as engagement is bolstered when employees' needs for esteem and belonging are met through recognition, collaboration, and meaningful work.

Turnover intentions are strongly linked to unmet needs within the organizational context. When employees perceive a lack of safety, growth opportunities, or recognition, they are more likely to consider leaving their organization (Griffeth, Hom, & Gaertner, 2000). Adaptive leadership directly addresses these issues by focusing on the individual and collective needs of employees, thereby reducing turnover rates. For example, creating a sense of purpose and belonging fulfills Maslow's social and esteem needs, while providing professional development

opportunities support self-actualization. In summary, adaptive leadership integrated the principles of Maslow's hierarchy of needs by addressing both the basic and higher-order needs of employees. By fostering engagement, resilience, and a supportive work environment, adaptive leadership reduces turnover and enhances organizational performance. This alignment highlights the interconnectedness of leadership, employee needs, and organizational outcomes.

2.2. Adaptive Leadership

Adaptive leadership, in the book written by Heifetz et al. (2009) *The Practice of Adaptive Leadership: Tools and Tactics for Changing Your Organization and the World*, is a leadership approach designed to address complex challenges in dynamic environments that require leaders and organizations to learn, innovate, and adapt. This leadership style emphasizes flexibility, collaboration, and employee empowerment to solve complex challenges.

The following are the core principles of adaptive leadership in the book *Adaptive Leadership* (Heifetz, Grashow, & Linsky, 2009) :

1. Distinguish authority & leadership

In *The Practice of Adaptive Leadership* by Heifetz et al. (2009), the authors distinguish between authority and leadership as two fundamentally different concepts. This distinction is central to their framework for understanding and practicing adaptive leadership. Authority refers to the formal or informal power granted to an individual by an organization to perform specific functions. It is tied to roles and responsibilities and often comes with expectations for providing direction, protection, and order. Authority is about managing tasks and maintaining stability within a system. Leadership, on the other hand, is about mobilizing people to tackle tough, adaptive challenges—problems that cannot be solved by technical solutions or through the exercise of authority alone. Leadership is not confined to a formal position or title and can be exercised by anyone in an organization or community. The distinction between authority and leadership is crucial because people often conflate the two. For

example, they might expect someone in authority to exercise leadership by solving adaptive challenges, even though those challenges require collective learning and engagement. Conversely, someone without formal authority can still exercise leadership by mobilizing people to address systemic problems. In adaptive leadership, the focus is on helping individuals and organizations navigate the tension between the need for stability (authority) and the need for transformation (leadership). Understanding this balance allows leaders to operate more effectively in complex environments.

2. Distinguishing Technical and Adaptive Challenges

This distinction is crucial for understanding how to respond effectively to different types of problems in organizations, communities, and societies. Technical challenges are problems for which there are known solutions, clear procedures, or existing expertise that can address them. They can typically be solved through the application of technical knowledge, processes, or expertise. These challenges operate within the existing structure of an organization or system. Adaptive challenges, by contrast, are more complex and require a shift in people's values, beliefs, attitudes, or behaviors. These challenges cannot be solved by applying technical solutions alone, as they often involve navigating uncertainty, learning, and change.

Table 2. 1 Key Distinction: Technical vs. Adaptive

Source: Heifetz et al. (2009)

FEATURE	TECHNICAL CHALLENGES	ADAPTIVE CHALLENGES
Nature of the Problem	Clear and well-defined	Ambiguous and complex
Solutions	Known and proven	Require learning, innovation, and experimentation
Who Solves It?	Experts or authorities	Collaboration across stakeholders
Change Required	Minimal; operates within the existing framework	Significant; requires shifts in values, beliefs, or norms
Timeframe	Short-Term	Long-term

Adaptive leaders have the following behavioral characteristics:

1. Get on the Balcony

This is a metaphor that illustrates that leaders can step back from their day-to-day activities for a while to see the broader context of the problem. This can help a leader identify organizational challenges and potential conflicts that may not be apparent during deep engagement so that leaders can have space to make strategic decisions. It also allows leaders to evaluate whether their current actions are in line with long-term goals and whether adjustments are needed. Yakovleva (2022) in Adaptive Leadership and Multilevel Resilience in the Context of Crisis also emphasizes this principle to build resilience and ensure a coherent response during difficult times.

2. Regulating Disequilibrium

This principle emphasizes the need for leaders to create balance and change the discomfort of change. A leader must keep his team from becoming tense, remain productive and support each individual to overcome challenges so that organizational stability can be created.

3. Giving the Work Back to the People

This principle focuses on team empowerment. The leader acts as a facilitator who helps his team develop the capacity to identify their problems and then encourages his team to provide answers, solutions and innovations so that they do not always depend entirely on the leader. Adaptive leaders can distribute responsibility, encourage members to experiment and learn from failure.

4. Protecting Voices of Leadership Below

This principle in adaptive leadership focuses on protecting individual perspectives in the organization so that a leader can ensure that every employee feels safe to voice their concerns without fear of retribution. Sometimes the voices coming from employees at lower levels of the hierarchy can provide insight and even good solutions to adaptive challenges. This is why it is important for a leader to also create an environment where diverse perspectives, especially those without formal authority, are encouraged and protected.

Adaptive leadership can be effective during times of crisis because adaptive leaders can respond quickly to changing circumstances and generate innovative solutions through learning and experimentation. Adaptive leadership builds multilevel resilience, enabling organizations to weather crises by empowering teams to adapt (Yakovleva, 2022). Adaptive leadership helps leaders navigate unpredictability by fostering resilience, agility, and innovation while remaining comfortable with ambiguity. It emphasizes that change is an ongoing, non-linear process requiring continuous learning, experimentation, and adaptation (Heifetz, Grashow, & Linsky, 2009). These qualities are beneficial to have in a leader attempting to guide others through change:

1. Emotional Intelligence: Adaptive leaders showcase emotional intelligence by understanding their own emotions and those of others. This skill helps them build meaningful relationships by actively listening and responding empathetically to team members and stakeholders.
2. Organizational Justice: Leaders ensure fairness and equity by fostering a respectful and inclusive environment. They establish transparent performance

criteria and equitable reward systems, ensuring all team members have equal opportunities to succeed.

3. **Knowledge Creation:** Adaptive leaders drive organizational innovation by transforming tacit (unspoken) knowledge into explicit (formal) knowledge and vice versa. This involves socialization (sharing experiences), externalization (expressing tacit ideas explicitly), combination (integrating explicit knowledge), and internalization (applying explicit knowledge in practice). These efforts enhance innovation, learning, and employee engagement.
4. **Commitment to Development:** Leaders prioritize team growth by offering training, mentoring, and opportunities to expand skills. Encouraging team members to take on new challenges fosters their professional and personal development.
5. **Strong Character:** Adaptive leaders exemplify integrity and accountability by being transparent in decisions and actions. They admit mistakes and work to correct them, earning trust and setting an example for their teams.

Adaptive leaders focus on developing employee capabilities by encouraging them to step outside their comfort zones, which increases engagement and long-term growth. Adaptive leadership can also foster a culture of learning, which increases engagement and resilience (Malik & Garg, 2017). Leaders who practice adaptive leadership foster a supportive environment, which is essential for psychological resilience during a crisis (Yakovleva, 2022). One of the keys to adaptive leadership is also in the communication process. Bardoel et al. (2014) studied that resilient employees can better manage workplace stress, especially under adaptive leadership that prioritizes clear communication and collaborative problem-solving.

Adaptive leadership is a practical framework developed to guide individuals and organizations in navigating complex challenges and thriving amidst uncertainty. Rooted in the idea that systems are perfectly designed to produce their current results, adaptive leadership emphasizes the need for leaders to mobilize people rather than impose top-down solutions. This involves diagnosing the underlying cultural, structural, and political dynamics of an organization to distinguish between technical

problems (solvable with expertise) and adaptive challenges (requiring changes in values, beliefs, and behaviors). Leaders must create a balance between maintaining equilibrium and driving necessary change by fostering environments where individuals can engage in difficult conversations and experiment with new solutions.

Key components of adaptive leadership include managing disequilibrium to help people tolerate the discomfort of change, connecting individuals to a shared purpose, and building adaptive cultures that encourage reflection, independent judgment, and shared responsibility for the organization's future. Adaptive leaders also need to see themselves as part of the system, continuously reflecting on their values, triggers, and roles to better align their actions with organizational goals. This iterative process of observation, interpretation, and intervention ensures that leaders remain agile and responsive, fostering resilience and adaptability at both individual and organizational levels.

2.3. Employee Resilience

Resilience is defined as a person's ability to adapt effectively in the face of severe adversity which allows for the restoration of balance. In an organizational context, resilience is generally defined as skills for problem-solving, adaptability, and good relationships with superiors and colleagues. This is especially needed in highly competitive and complex service industries, such as banking or multifinance (Ollier-Malaterre, 2010). Employee resilience plays an important role in organizations because at this level employees are able to adapt, recover, and thrive in the face of stress, challenges, and uncertainty in the workplace (Luthans, 2002) introduced the concept of psychological capital (PsyCap), which includes self-efficacy, hope, optimism and resilience. Resilience, as part of this framework, is described as a positive resource that helps employees recover from adversity and maintain their performance under stressful conditions. Organizations can foster resilience by fostering a supportive environment and training interventions that build this psychological capacity.

Employee resilience is important to reduce the negative impact of high employee turnover. Resilient employees can adapt to change and have good

cooperation with each other even in unstable environments. The main key to building this resilience mechanism is employees who are able to adapt and are resilient to emotional stress and are willing to take on additional responsibilities without sacrificing performance. High employee turnover disrupts the trust overtime between employees, thus disrupting stability, productivity and team morale, which can have an impact on organizational performance (Dess & Shaw, 2001)

Shin, Taylor, and Seo (2012) apply the conservation of resources (COR) theory Hobfoll (2010) to understanding and managing organizational change, emphasizing that resilience is a critical individual resource that can be developed and leveraged to reduce stress and support employee commitment during transitions. Building on this argument, resilience, as a resource, can be cultivated through adaptive leadership, which focuses on mobilizing individuals and organizations to navigate challenges effectively. Adaptive leadership aligns with COR theory by creating environments that protect against resource losses, such as job insecurity and work strain, which are strongly linked to outcomes like burnout, absenteeism, and turnover intention. By employing HR practices that enhance psychological resources, such as autonomy and self-esteem (Hobfoll, 2010), adaptive leaders can foster resilience, reducing turnover by mitigating the impact of resource depletion and maintaining employee engagement. This approach demonstrates how adaptive leadership and COR-informed interventions address the critical relationship between resilience, employee turnover, and organizational performance.

Employee resilience, defined as the capacity to adapt and thrive amidst adversity, is crucial in today's dynamic organizational environments. Adaptive leadership, characterized by flexibility and responsiveness to change, plays a pivotal role in fostering this resilience among employees. By promoting a culture that encourages continuous learning, open communication, and empowerment, adaptive leaders enable their teams to navigate challenges effectively, thereby enhancing overall organizational resilience (McKinsey & Company, 2020).

The relationship between adaptive leadership and employee resilience is underscored by the emphasis on emotional intelligence and the cultivation of a growth

mindset. Adaptive leaders prioritize understanding and managing emotions, both their own and those of their team members, which fosters trust and psychological safety (Goleman, Boyatzis, & McKee, 2013). This environment encourages employees to view challenges as opportunities for growth rather than threats, thereby enhancing their resilience. Such leaders also promote adaptability by encouraging innovative problem-solving and flexibility, essential traits for thriving in rapidly changing industries (Yukl & Mahsud, 2010).

Furthermore, adaptive leadership contributes to organizational resilience by aligning leadership strategies with the development of employee resilience. By fostering a culture that supports adaptability and continuous improvement, adaptive leaders ensure that both individuals and the organization can withstand and grow from challenges. This alignment not only enhances employee well-being but also strengthens the organization's capacity to navigate uncertainty and maintain a competitive edge (Heifetz, Grashow, & Linsky, 2009).

2.4. Employee Engagement

Employee engagement is a psychological state that reflects an employee's emotional, intellectual, and behavioral commitment to their job and their organization. Engaged employees demonstrate enthusiasm, dedication, and deep attachment to their tasks. This concept differs from job satisfaction because it focuses on active participation and connectedness to organizational goals (Gallup, 2023). Engaged employees find value in their work so high engagement increases productivity, innovation, and reduces employee turnover, which directly improves performance (Malik & Garg, 2017). Adaptive leaders actively seek employee input, fostering a sense of ownership that increases engagement (Cooke et al., 2016).

Adiyanto (2022) also identified that organizational commitment has an important role as a moderating variable in increasing the relationship between employee engagement and employee loyalty. Employees who feel appreciated and see alignment between personal values and organizational values tend to have higher levels of engagement. Employee engagement serves as a major deterrent against employee

intentions to leave the organization. When employees feel connected to their jobs, their likelihood of leaving decreases, thereby helping the organization retain a quality workforce.

Research shows that employee engagement has a significant impact on turnover. Memon et al. (2020) found that satisfaction with performance evaluation mediated the relationship between job engagement and intention to leave the organization. When employees feel valued and recognized, their engagement increases, which directly reduces turnover intentions. Some of these studies can provide conclusions about how important it is for organizations to create a supportive work environment, pay attention to leadership style, and prioritize employee engagement.

Employee engagement is increasingly recognized as a crucial determinant of organizational success, defined as a state in which employees are fully absorbed in their work and emotionally committed to their organizations. This concept embodies an emotional, cognitive, and physical commitment that drives productivity, innovation, and resilience. High engagement fosters individual well-being while enhancing organizational outcomes such as improved performance and profitability (Schaufeli, Bakker, & Salanova, 2006). In challenging environments, employee engagement enables organizations to maintain a motivated workforce, supporting both adaptability and persistence in achieving goals. Adaptive leadership, as described by Heifetz et al. (2009), aligns with this notion by emphasizing the mobilization of individuals to tackle complex challenges and thrive in adversity. This leadership model encourages the creation of an environment that supports resilience, fosters innovation, and aligns individual and organizational goals.

The relationship between adaptive leadership and employee engagement is underpinned by the shared focus on fostering resilience and innovation within organizations. Adaptive leadership behaviors, such as creating a holding environment and empowering employees, directly address the emotional and psychological needs that underpin engagement. For instance, adaptive leaders who encourage autonomy and facilitate collaborative problem-solving can enhance employees' sense of purpose, motivation, and connection to their work. This dynamic is especially critical in

organizations facing high turnover, as engaged employees who experience adaptive leadership are more likely to demonstrate loyalty and reduce turnover intention. Research also suggests that adaptive leadership's capacity to regulate distress and maintain disciplined attention plays a significant role in mitigating workplace challenges, which is essential for fostering long-term engagement (Stukes, 2021). Together, these insights highlight the centrality of adaptive leadership in enhancing employee engagement, thereby reducing turnover and driving sustainable organizational performance.

2.5. Employee Turnover

Productivity, operational effectiveness, and the accomplishment of strategic objectives are all components of organizational performance. Employee turnover has a direct effect on these performance metrics, particularly when it happens frequently. High employee turnover often leads to decreased productivity in an organization. Anzazi (2016) explains that when employees leave a company, there are vacant positions that result in an uneven distribution of work. This can extend the time to complete tasks and reduce the quality of output. In addition, the process of recruiting and training new employees takes significant time and resources, which disrupts operational efficiency. Employee turnover harms teamwork and the collective performance of the organization. New employees need time to adjust to the work culture and understand their roles. According to Anzazi, this transition period can cause an increase in workload for employees who remain. The impact is that team performance becomes less than optimal, and the organization may experience a decline in achieving strategic targets.

Anzazi (2016) also identified several factors that cause high turnover, one of which is ineffective leadership. An unsupportive leadership style is often one of the main causes of high turnover. High employee turnover has serious economic implications for organizations. Direct costs, such as recruiting and training new employees, as well as indirect costs, such as the loss of institutional knowledge and customer relationships, can reduce the profitability of the organization. Anzazi

highlights that the costs of turnover often outweigh the investment in employee retention programs.

Employee turnover, defined as the rate at which employees leave an organization, remains a persistent challenge for businesses, especially in dynamic sectors such as multifinance. Intention to leave, often a precursor to actual turnover, is influenced by various factors, including job satisfaction, supervisor behavior, and workplace engagement (Griffeth, Hom, & Gaertner, 2000). Studies suggest that turnover can be mitigated through effective leadership strategies that address underlying causes, such as disengagement and lack of resilience among employees.

Adaptive leadership theory offers a comprehensive framework for reducing turnover by emphasizing the need for leaders to address complex challenges while mobilizing teams to adapt and thrive in changing environments (Heifetz, Grashow, & Linsky, 2009). By fostering a culture of resilience and engagement, adaptive leaders help employees navigate organizational challenges more effectively. Employee resilience, defined as the ability to recover from setbacks and adapt to adversity, has been shown to lower turnover intentions by enhancing employees' capacity to cope with workplace stressors (Daia, Zhuang, & Huan, 2019). Moreover, engaged employees, characterized by their dedication, vigor, and absorption in work, are less likely to leave their organizations, as engagement aligns with intrinsic motivation and job satisfaction (Schaufeli, Bakker, & Salanova, 2006).

2.6. Adaptive Leadership on Employee Engagement, Resilience, and Turnover

Adaptive leadership has been extensively studied in relation to employee engagement, resilience, and turnover. Research indicates that adaptive leadership fosters a work environment conducive to high employee engagement. By promoting flexibility, open communication, and continuous learning, adaptive leaders empower employees, leading to increased job satisfaction and commitment. A study by McKinsey & Company (2020) highlighted that individual exhibiting high levels of resilience or adaptability reported better holistic health and higher engagement compared to their peers. Additionally, leadership approaches that emphasize

adaptability and employee development contribute significantly to fostering intrinsic motivation and a sense of purpose at work (Deci & Ryan, 2020).

Moreover, adaptive leadership significantly contributes to building employee resilience. Leaders who demonstrate adaptability encourage their teams to embrace change and view challenges as growth opportunities. This approach not only enhances individual resilience but also bolsters organizational adaptability. A study by Zang & Shi (2012) found that leadership styles emphasizing adaptability positively influence job performance, especially in rapidly changing environments. Similarly, research by Harland et al. (2005) suggests that adaptive leadership fosters resilience by creating supportive environments that enhance employees' ability to cope with stress, uncertainty, and organizational change.

In terms of employee turnover, adaptive leadership plays a crucial role in retention strategies. By fostering an environment that supports adaptability and continuous improvement, adaptive leaders enhance employee well-being and commitment, thereby reducing turnover intentions. A study by Kim and Beehr (2018) found that leadership styles promoting adaptability are associated with lower turnover intentions, as they address employees' needs for growth and recognition. Furthermore, Shoss (2017) emphasized that employees with strong resilience, supported by adaptive leadership, are less likely to experience job insecurity and are more committed to their organizations.

The relationship between adaptive leadership, employee engagement, and resilience is interdependent. Adaptive leadership behaviors, such as providing support during periods of change and empowering employees, directly contribute to building resilience and fostering engagement. These qualities, in turn, reduce turnover intentions by strengthening employees' emotional and psychological ties to the organization. Research by Daia et al. (2019) highlights the role of resilience in mitigating turnover in high-stress environments, further emphasizing the importance of adaptive leadership in cultivating a supportive and engaging workplace.

2.7. Sector-Specific Insights & Economic Uncertainty

OJK (2024) outlines the challenges in Indonesia's multifinance sector in its roadmap, emphasizing the need for targeted strategies to combat high employee turnover rates, such as improving employee benefits and encouraging career development.

Economic pressures amplify employee concerns about job security, which often leads to higher turnover intentions. Employee turnover is influenced by a combination of cultural, operational, and economic factors. To reduce employee turnover, effective leadership styles, especially adaptive and transformational approaches, are needed to meet employee needs. Operational efficiency should not be at the expense of employee well-being and should still ensure workload balance, and engagement strategies to build psychological and organizational capital (Löyttyniemi, 2023)