

BOOSTING EMPLOYEE ENGAGEMENT IN INDONESIA'S LOGISTICS AND FORWARDING SECTOR: THE MODERATING EFFECT OF DEMOCRATIC LEADERSHIP STYLE

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ABSTRACT

In today's rapidly evolving technological landscape, the quality of employee skills and job commitment—reflected through employee retention—has become increasingly vital. This study investigates the effects of corporate governance (CG), internal control (IC), and corporate reputation (CR) on employee engagement (EE), with a focus on the moderating role of democratic leadership style. Data were obtained from 606 respondents across 276 logistics companies affiliated with the Indonesian Logistics and Forwarders Association (ILFA), using a structured questionnaire distributed via Google Forms. The analysis was conducted using Partial Least Squares–Structural Equation Modeling (PLS–SEM) with the SmartPLS 4.0.7.8 software. The findings reveal that corporate governance, internal control, and corporate reputation each have a significant positive influence on employee engagement. However, the study also indicates that the democratic leadership style does not enhance the influence of these three factors on employee engagement. These results suggest that while effective governance, controls, and reputation are crucial for engaging employees, a democratic leadership style may not always serve as the most effective moderating mechanism in the context of the Indonesian logistics and forwarding industry. Leaders are therefore encouraged to explore alternative leadership approaches better aligned with their organizational culture and employee expectations.

Keywords: *leadership style; corporate governance; internal control; corporate reputation; employee engagement*

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1. | INTRODUCTION

To ensure business continuity, companies must adapt to environmental changes, relying on skilled employees with strong job commitment, as indicated by retention rates, in today's fast-evolving technological landscape. Employee engagement (EE), encompassing urgency, focus, enthusiasm, and adaptability (Macey et al. 2009), is critical. However, lastminute.com (2019) ranks Indonesia as the most relaxed country, suggesting lower urgency or commitment among workers. Indonesia's Ministry of Manpower notes a high employee turnover rate, with Mr. Marajohan (2016) citing uncondusive work environments as a key cause. Low commitment and high turnover directly impact employee engagement.

Employee engagement fosters optimal physical and psychological work environments, enhancing company efficiency (Kahn 1990). This prompts inquiry into whether Indonesians work diligently despite diverse leadership styles. As the third-largest democracy, Indonesia commonly employs democratic leadership, which shapes work ethic and organizational culture. This study examines how dynamic democratic leadership boosts employee engagement.

Effective leadership (Turk 2010), clear corporate governance (CG) (Stahl and de Luque 2014), robust internal control (IC) systems (Otley 1999), and strong company reputation (Treviño et al. 2000) drive organizational success and influence engagement (Gatzert and Schmit 2015; Jiang and Shen 2020; Kumar and Sia 2012). As the largest archipelagic nation, Indonesia's logistics industry is vital for economic growth (Vilko et al. 2011). Yet, logistics costs, at 26% of GDP, far exceed the 13% in neighboring countries, reducing competitiveness (Sanya and Suharto 2022). Minister Luhut Pandjaitan aims to lower this to 17% by 2024. This study explores how Indonesia, a relaxed nation, adapts to the dynamic logistics sector.

This research is the first to investigate democratic leadership's impact on employee engagement through governance, reputation, and internal controls, focusing on Indonesia's logistics and freight forwarding industry.

2. | LITERATURE REVIEW

Democratic Leadership Style

Leadership, a vital management skill in organizations, involves influencing individuals to achieve shared objectives using available resources effectively (Hilton et al. 2021). Effective leaders encourage teamwork to fulfill specific goals, adapting their unique leadership style to varying situations, which cannot be inherited automatically. Democratic leaders actively seek and value staff and subordinates' suggestions, opinions, and advice through deliberative forums to reach consensus (Miloloza 2018). They are dynamic, purposeful, and manage activities responsibly, ensuring clear delegation of authority to foster active participation (Fiaz et al. 2017). Such leaders respect individual potential, attentively consider subordinates' input, and strategically

utilize specialists' expertise to optimize team members' contributions at appropriate times and conditions

Corporate Governance

Good corporate governance (GCG) is vital for economic development, enhancing financial performance and access to external resources. In emerging markets, GCG reduces financial distress, strengthens property rights, lowers operational and capital costs, and fosters efficient markets (Ali et al., 2019). It minimizes investor risk, attracts investment, and boosts performance (Chaudhary, 2017). GCG aligns principal-agent interests, reduces information asymmetry, and provides effective monitoring to ensure smooth company operations

Internal Control

Internal control serves to both prevent and detect fraudulent activities while safeguarding an organization's tangible and intangible assets, thus enhancing operational efficiency and ensuring proper organizational function. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), as cited by Suárez and Panamericana (2017), internal control is shaped by the board of commissioners, management, and other personnel across the organization. It aims to offer reasonable assurance in achieving operational effectiveness and efficiency, reliable reporting, and regulatory compliance. Adegboyegun et al. (2020) emphasized that internal control is an essential component of a company's overall policy and risk management framework. Similarly, Cika (2017) noted that it plays a critical role in goal attainment and in safeguarding the assets of company owners.

Corporate Reputation (CR)

Corporate reputation refers to the way external stakeholders and other relevant parties perceive an organization (Tong, 2013). It is a highly valued and significant intangible asset, as it greatly contributes to an organization's long-term competitive advantage. A strong reputation helps in building and sustaining a positive image and encourages continuous stakeholder involvement in the company's operations. Moreover, it aligns the company with its external environment, serving as a key factor for the organization's sustainable growth and profitability (Luis et al., 2015). A positive corporate reputation also fosters a workplace culture where employees feel appreciated and respected, which boosts their motivation and job performance.

In public relations, corporate reputation is viewed as a collective cognitive perception. This means that it is not just an individual viewpoint but a shared understanding held by various stakeholders of the organization (Tong, 2013).

Employee Engagement

Employee performance is shaped by a combination of individual, organizational, and psychological factors. One important factor in this regard is employee engagement, which reflects an employee's emotional connection to their job or organization. Kular et al. (2008) describe employee engagement as a holistic commitment—physical,

emotional, and intellectual—that drives individuals to put effort into their tasks. Similarly, Wellins and Concelman (2005) view engagement as encompassing commitment, loyalty, productivity, and a sense of ownership. Xiao and Duan (2014) further define it as a concept that includes proactive behavior, dedication, effectiveness, a strong sense of identity, and organizational commitment.

Engaged employees tend to show genuine enthusiasm for their roles and the organization they work for. This engagement is expressed through their willingness to contribute to the organization's goals, complete their tasks with passion, and even work beyond regular hours when needed.

Furthermore, the role of business owners—especially in small and medium enterprises (SMEs)—is crucial in fostering employee engagement. This is supported by findings from Mura et al. (2021), which reveal that 90.9% of SME owners believe that promoting an ethical corporate culture enhances employee loyalty.

Study Framework and Hypothesis Development

Based on the conceptual framework presented in Figure 1, the development of the hypotheses is outlined as follows.

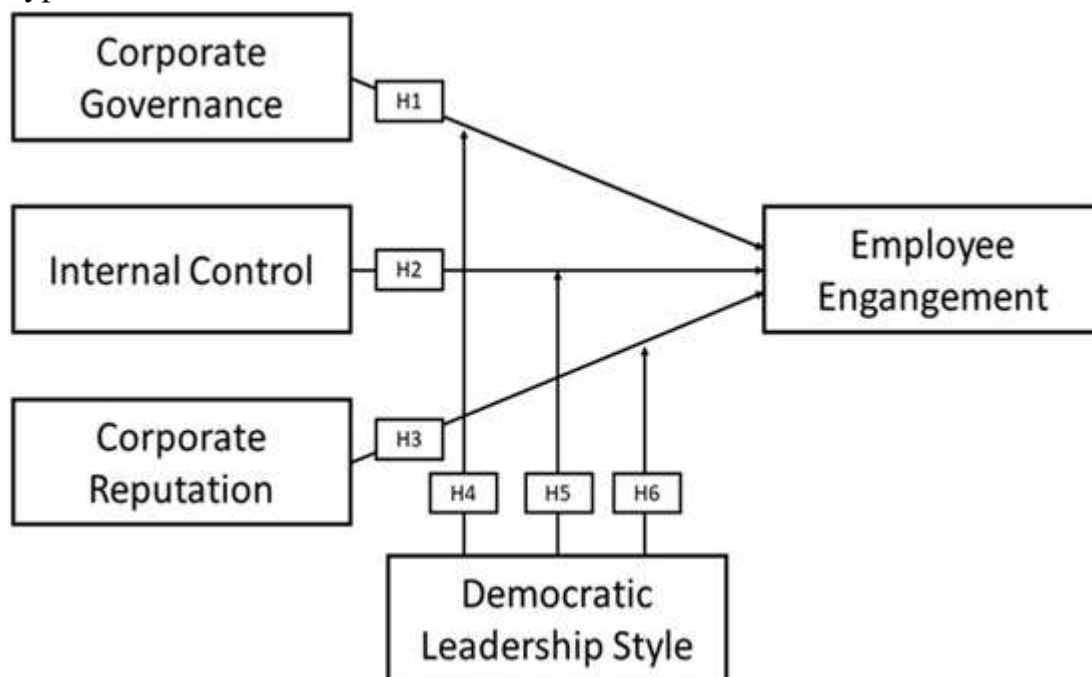


Figure 1. Study Framework.

Corporate Governance and Employee Engagement

Corporate governance fosters transparent communication channels (Jiang and Shen, 2020), emphasizes accountability (Men and Hung-Baesecke, 2015), demonstrates responsiveness to external conditions, and values employee input (Bandura and Lyons, 2017). Additionally, it contributes to the development of a transparent organizational culture (O'Connor and Crowley-Henry, 2019), which enhances employee comfort and leads to higher levels of engagement. Drawing on insights from these prior studies, the following hypothesis is proposed:

(H1): Corporate Governance has a positive influence on Employee Engagement.

Internal Control and Employee Engagement

An effective internal control system contributes to the development of a positive work environment (Robinson, 2006), which facilitates smoother task execution (Bakker and Schaufeli, 2008) and enhances employee engagement. Based on these prior studies, the second hypothesis is proposed: (H2): Internal Control has a positive influence on Employee Engagement.

Corporate Reputation and Employee Engagement

Corporate reputation reflects the overall outcome of an organization's actions and performance. A strong and positive reputation enhances employees' sense of pride in their workplace, which in turn fosters higher levels of engagement (Shirin and Kleyn, 2017). Based on these findings, the third hypothesis is proposed: (H3): Corporate Reputation positively influences Employee Engagement.

Democratic Leadership Style, Corporate Governance, and Employee Engagement

Employee engagement (EE) reflects employees' overall perception of how much their contributions and well-being are appreciated by the organization. Employees feel valued when the company recognizes their efforts, cares for their welfare, and addresses their socio-emotional needs. This demonstrates that a democratic leadership style enhances the positive impact of corporate governance on employee engagement (Fiaz et al., 2017). Therefore, the fourth hypothesis was formulated as follows.

(H4): Democratic Leadership Style enhances the positive impact of Corporate Governance on Employee Engagement.

Democratic Leadership Style, Internal Control, and Employee Engagement

Employees' strong commitment to their responsibilities and exemplary conduct in accordance with laws and regulations stem from their trust in the organization's values and their willingness to contribute to achieving its objectives. When employees identify with corporate values, they experience greater job satisfaction and enhanced performance. Consequently, the democratic leadership style amplifies the positive influence of internal control on employee engagement (Fiaz et al., 2017). Based on these findings, the fifth hypothesis is proposed:

(H5): Democratic Leadership Style strengthens the effect of Internal Control on Employee Engagement.

Democratic Leadership Style, Corporate Reputation, and Employee Engagement

Employees tend to invest greater effort in their responsibilities, highlighting the importance of effective human resource management. Increased employee engagement is closely linked to improved performance outcomes. In this context, leadership involves guiding and motivating individuals toward the achievement of shared objectives. Singh (2021) found that transformational leadership enhances employee engagement in service sector firms in Pakistan. Additionally, democratic leadership has been shown to strengthen the impact of corporate reputation on employee engagement (Fiaz et al., 2017). A strong leader helps build a positive reputation that signals

promising prospects for the company (Men and Stacks, 2013). This reputation fosters high self-confidence among employees, which positively influences their level of engagement with the organization (Shirin and Kleyn, 2017). Drawing from these insights, the sixth hypothesis is proposed:

(H6): Democratic Leadership Style strengthens the influence of Corporate Reputation on Employee Engagement.

3. | RESEARCH METHOD

Sample and Data Collection

The study sample consisted of employees holding at least a D3 (Diploma) degree or higher, with a minimum of two years of work experience in companies affiliated with the Indonesian Logistics and Forwarders Association (ILFA). Data were collected through a Google Form questionnaire distributed to ILFA members, yielding responses from 606 participants representing 276 logistics companies. The data collection took place from October 14, 2021, to February 22, 2022.

Alongside this quantitative approach, qualitative methods were also employed. Interviews were conducted via the Zoom platform to gather more in-depth insights. These interviews provided valuable perspectives on the current state of the Indonesian logistics and forwarding industry based on participants' experiences. Table 1 presents an overview of the companies where the respondents are employed.

Table 1. Variable Measures.

Name	Company	Position	Interview Date
Lita Wulandari	PT. Pos Logistics Indonesia	Human capital manager	1 April 2022
Erry F. Setianto	PT. Bina Sarana Samudera Jaya	Director	4 April 2022
Maruly Suryono	A joint venture, Indonesia, and Australia-based logistics company	Country manager	4 April 2022
Linda Cipta Anugrah	PT. GPI Logistics	Assistant general manager	5 April 2022
Subli Fikri Julis	PT. Pancaran Group	Head of human capital	5 April 2022
Eka Yannewaty Jayakusuma	A.P. Moller—Maersk	Area director	5 April 2022

Measurement

The democratic leadership style variable in this study was based on the definition provided by Kelly and MacDonald (2016), using three indicators to capture respondents' perceptions of democratic leadership behaviors. The corporate governance variable was derived from the fundamental principles outlined by the Indonesian Corporate Governance Committee (KNKG, 2019), which include five key components: transparency, accountability, responsibility, independence, and fairness.

The internal control variable followed the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), which identifies five elements. Corporate reputation was measured using six dimensions adapted from Morsing et al. (2008), while employee engagement was adopted from the scale developed by Imandin et al. (2015).

For each variable, respondents were presented with five multiple-choice options reflecting actual conditions in their respective organizations (see Appendix A). Respondents could select more than one option depending on their company's situation. Responses were scored on a five-point Likert scale as follows: selecting "None of the above facts" received a score of 1; choosing one fact received 2; two facts received 3; three facts received 4; and four facts received 5. If a respondent selected all five options, their response was deemed invalid and excluded from the analysis. Table 2 summarizes the variables and measurement criteria used in this study.

Table 2. Variable Measures.

Variable	Measures
Democratic Leadership Style (Kelly and MacDonald 2016)	Decision making
	Motivating
	Employee interaction
Corporate Governance (KNKG 2019)	Transparency
	Accountability
	Responsibility
	Independence
	Fairness
Internal Control (COSO 2013)	Control environment
	Risk assessment
	Control activities
	Information and communication
	Monitoring
Corporate Reputation (Morsing et al. 2008)	Emotional attraction
	Products and services
	Working environment
	Financial performance
	Vision and leadership
	Social responsibility
Employee Engagement (Imandin et al. 2015)	Cognitive drivers
	Emotional engagement
	Behavioral engagement
	Feeling valued and involved
	Having an engaged leadership team
	Trust and integrity
	Nature of the job

The connection between individual and company performance
Career growth opportunities
Stress-free environment
Change management

Data Analysis

Data analysis was performed using the Partial Least Squares–Structural Equation Modeling (PLS–SEM) method with SmartPLS version 4.0.7.8 software. PLS–SEM includes two components: the outer model, which assesses the measurement model, and the inner model, which evaluates the structural model (Hair et al., 2017). The measurement model was assessed through the PLS algorithm, involving tests for internal consistency reliability (composite reliability) and validity (convergent validity, discriminant validity, and average variance extracted (AVE)) (Hair et al., 2017). Structural model evaluation was conducted using the bootstrapping technique, which examines R^2 , Q^2 (predictive relevance), path coefficient size and significance, and f^2 (effect size) (Hair et al., 2017).

Convergent validity is established when standardized loading factors exceed 0.7 and AVE values are greater than 0.5 (Hair et al., 2017). Discriminant validity was assessed using the heterotrait–monotrait ratio of correlations (HTMT), with a threshold of less than 0.9 for correlations between variables (Henseler et al., 2015). An item is considered reliable if its composite reliability (ρ_a) falls between 0.7 and 0.95 (Hair et al., 2017).

The coefficient of determination (R^2) indicates the explanatory power of exogenous variables on endogenous variables and is classified as strong (0.75), moderate (0.5), or weak (0.25) (Hair et al., 2017). The effect size (f^2) assesses the impact of exogenous variables on endogenous variables, with values of 0.02, 0.15, and 0.35 representing weak, moderate, and strong effects, respectively (Hair et al., 2017). The model's predictive relevance is considered adequate if the Q^2 value exceeds zero. Finally, hypotheses are accepted when the significance value (p-value) is less than 0.05 and the t-value exceeds 1.96 (Hair et al., 2017).

4. | RESULTS AND DISCUSSION

Descriptive Analysis

Table 1 presents the distribution of respondents according to several key categories. Regarding company type, the vast majority of respondents work for private enterprises, accounting for 98.84%, while only a small fraction, 1.16%, are employed by state-owned enterprises. This highlights a predominantly private sector participation in the study.

In terms of geographical distribution, most respondents are affiliated with companies located in Java and Bali, representing 86.80% of the sample. Other regions include Sumatra with 7.26%, Kalimantan with 4.13%, Sulawesi with 0.83%, and various other

areas across Indonesia making up 0.99%. This distribution indicates a concentration of respondents in the main economic hubs of the country.

The respondents' work positions cover five main categories: supervisors, managers, general managers, members of boards of directors, and members of boards of commissioners. Managers constitute the largest group at 44.88%, followed closely by supervisors at 41.91%. General managers make up 6.60%, board of directors members represent 4.95%, and board of commissioners members are the smallest group at 1.65%. This shows that middle management roles dominate the sample.

Regarding tenure, respondents were divided into two groups based on their length of employment at their current company: those with 2 to 5 years of service and those with more than 5 years. The majority, 64.85%, fall into the 2–5 years category, while 35.15% have been employed for over 5 years. This suggests a relatively experienced workforce with a significant portion in mid-term employment.

Educational background among respondents includes holders of Diploma 3 degrees (15.02%), Diploma 4 or bachelor's degrees (50.66%), and advanced degrees such as Master's or Ph.D. (34.32%). The highest proportion of respondents has attained a Diploma 4 or bachelor's degree, reflecting a moderately high level of formal education within the sample. Table 3 further details these respondent characteristics comprehensively.

Table 3. Descriptive Analysis (Respondents).

Characteristics	Total	Percentage
Type of Company:		
Private enterprise	599	98.84%
State-owned enterprise	7	1.16%
Total	606	100.00%
Location of Company:		
Java and Bali	526	86.80%
Kalimantan	25	4.13%
Sumatra	44	7.26%
Sulawesi	5	0.83%
Others	6	0.99%
Total	606	100.00%
Job Position:		
Supervisor	254	41.91%
Manager	272	44.88%
General manager	40	6.60%
Board of directors	30	4.95%
Board of commissioners	10	1.65%
Total	606	100.00%
Employment Period:		
2–5 years	393	64.85%
More than 5 years	213	35.15%

Total	606	100.00%
Education Level:		
Diploma 3	91	15.02%
Diploma 4/bachelor's degree	307	50.66%
Master/Ph.D. degree	208	34.32%
Total	606	100.00%

Table 4 presents the classification of companies based on their type and location. The companies are divided into two categories: private companies and public companies. Private companies make up the vast majority, accounting for 98.91% of the sample, while public companies represent only 1.09%. Regarding geographical location, companies are grouped into five regions: Java and Bali, Kalimantan, Sumatra, Sulawesi, and other parts of Indonesia. Most companies, 89.13%, are located in Java and Bali, followed by 5.43% in Sumatra, 3.62% in Kalimantan, 1.09% in Sulawesi, and 0.72% in other regions across Indonesia. This data indicates a significant concentration of companies in the Java and Bali area, which are key economic centers in the country.

Table 4. Descriptive Analysis (Companies).

Characteristics	Total	Percentage
Type of Company:		
Private Sector	273	98.91%
State-Owned Enterprise	3	1.09%
Total	276	100.00%
Location of Company:		
Java and Bali	246	89.13%
Kalimantan	10	3.62%
Sumatra	15	5.43%
Sulawesi	3	1.09%
Others	2	0.72%
Total	276	100.00%

Common Method Bias

This study employed an online distributed questionnaire, which may introduce common method bias (CMB). To ensure the collected data were free from such bias, the full collinearity test method was applied using variance inflation factor (VIF) statistics alongside the consistent PLS algorithm technique. According to Kock and Lynn (2012), the full collinearity test is a robust procedure that simultaneously assesses both vertical and lateral collinearity within the model. A VIF value exceeding 3.3 signals the presence of common method bias, whereas values below this threshold indicate the data are uncontaminated (Kock 2015).

As shown in Table 5, all constructs in this study exhibit VIF values below 3.3, confirming that the data are free from common method bias and suitable for further analysis.

Table 5. Common Method Bias.

	Corporate Reputation	Internal Control	Employees' Engagement	Democratic Leadership
Corporate Governance				
Corporate governance		2.515	2.451	2.257
Corporate reputation	2.903		2.700	2.580
Internal control	2.199	2.078		2.249
Employees' engagement	3.119	3.049	3.282	
Democratic leadership	1.345	1.345	1.335	1.211

Measurement Model Analysis (Outer Model)

The convergent validity test results in Table 6 indicate that all indicators within each latent variable exhibit factor loadings and average variance extracted (AVE) values exceeding 0.7 and 0.5, respectively. Exceptions include items X2.1 from the internal control construct, X3.1 and X3.3 from the corporate reputation construct, and Y1.3 and Y1.5, which have loadings below 0.7 but above 0.5. According to Hair et al. (2017), these values are still considered acceptable. Additionally, the composite reliability (rho_a) for each construct ranges between 0.7 and 0.95, demonstrating good internal consistency among the measurement items.

Table 6. Validity and Reliability Analysis.

Variable	Item	Loading Factor	AVE	Composite Reliability (rho_a)
Democratic leadership	M1	0.902	0.817	0.846
	M2	0.902		
	M3	0.908		
Corporate governance	X1.1	0.796	0.619	
	X1.2	0.768		
	X1.3	0.803		
	X1.4	0.752		
	X1.5	0.814		
Internal control	X2.1	0.682	0.612	0.852
	X2.2	0.807		
	X2.3	0.804		
	X2.4	0.848		
	X2.5	0.760		
Corporate reputation	X3.1	0.692	0.548	0.839
	X3.2	0.779		

	X3.3	0.645		
	X3.4	0.795		
	X3.5	0.793		
	X3.6	0.724		
Employee engagement	Y1.1	0.828	0.577	0.928
	Y1.2	0.782		
	Y1.3	0.683		
	Y1.4	0.738		
	Y1.5	0.699		
	Y1.6	0.800		
	Y1.7	0.736		
	Y1.8	0.755		
	Y1.9	0.822		
	Y1.10	0.726		
	Y1.11	0.768		

Table 7 presents the summary of discriminant validity results based on the Heterotrait–Monotrait Ratio of Correlations (HTMT) method. All correlation values between constructs are below the threshold of 0.9, indicating that the questionnaire items for each construct demonstrate good discriminant validity.

Table 7. Discriminant Validity—Heterotrait–Monotrait Ratio of Correlations (HTMT).

	Corporate Reputation	Democratic Leadership	Employees' Engagement	
Corporate Governance				
Corporate Governance				
Corporate Reputation	0.835			
Democratic Leadership	0.427	0.453		
Employee Engagement	0.842	0.876	0.574	
Internal Control	0.785	0.839	0.335	0.763

Structural Model Analysis (Inner Model)

The next stage in the PLS-SEM analysis involves evaluating the structural model with the moderating variable, democratic leadership style. The results are presented in Figure 2 and Table 8.

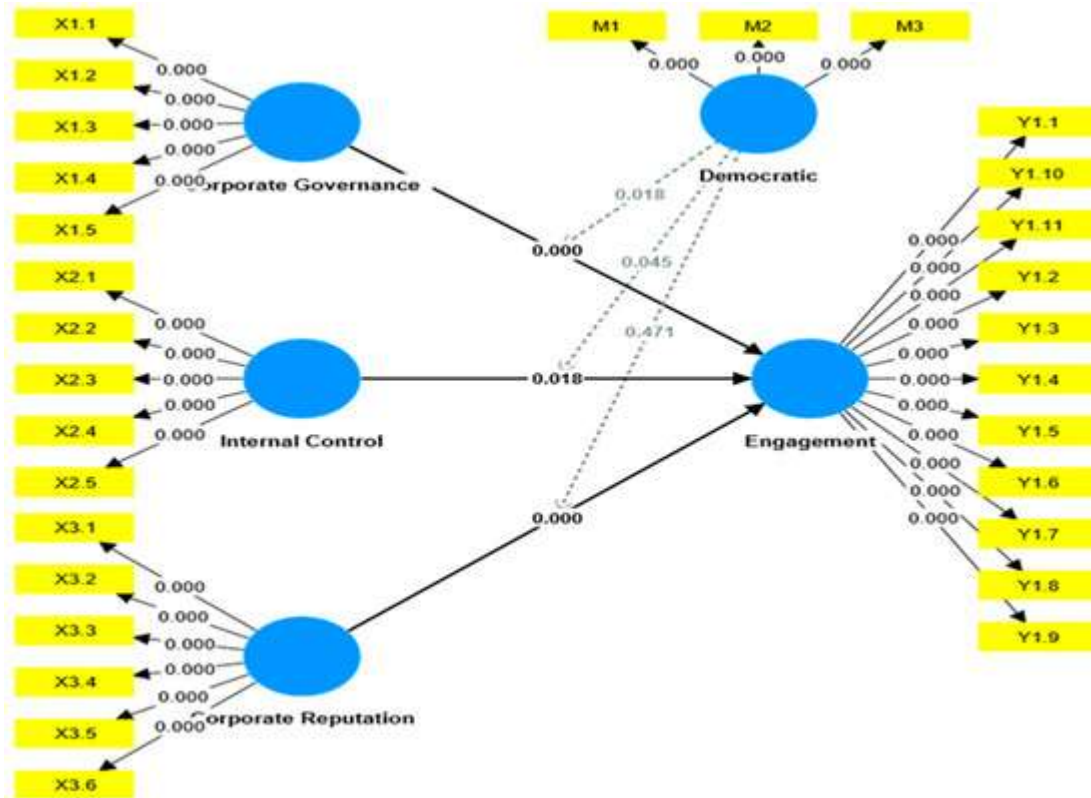


Figure 1. Structural Model Results (p-value).

Table 8. Structural Model Summary

Path	Std	STDEV	T-Stats	p-Values	R2	f2
Corporate governance → Employee engagement	0.231	0.052	4.457	0.000	0.777	0.089
Corporate reputation → Employee engagement	0.325	0.065	4.987	0.000		0.167
Democratic → Employee engagement	0.193	0.040	4.764	0.000		0.132
Internal control → Employee engagement	0.097	0.047	2.088	0.018		0.017
Democratic × Internal control → Employee engagement	-0.091	0.054	1.700	0.045		
Democratic × Corporate	0.005	0.063	0.074	0.471		

reputation	→				
Employee engagement					
Democratic	×	-0.092	0.044	2.089	0.018
Corporate governance	→				
Employee engagement					

Note: T-statistics = one-tailed.

Table 8 shows that the R^2 value for employee engagement is 0.777, indicating that 77.7% of the variability in employee engagement can be explained by corporate governance, corporate reputation, and internal control. Since there is only one endogenous variable, the Q^2 value is equal to R^2 and is greater than 0, which confirms the model's strong predictive relevance. The f^2 effect sizes for corporate governance, internal control, and democratic leadership on employee engagement are 0.089, 0.132, and 0.017 respectively—each below 0.15—indicating a low effect size at the structural level. Meanwhile, corporate reputation has a moderate effect on employee engagement, with an f^2 of 0.167, which is above the 0.15 threshold.

The hypothesis testing without the moderating effect of democratic leadership style (Table 6) shows significant relationships, with p-values less than 0.05 and t-statistics greater than 1.64 (one-tailed), thus the hypotheses are accepted. However, when democratic leadership style acts as a moderator, the influence of corporate reputation on employee engagement becomes insignificant (p-value = 0.471 > 0.05). Furthermore, the moderation effect of democratic leadership style on corporate governance ($\beta = 0.091$; $p = 0.045$) and internal control ($\beta = 0.092$; $p = 0.018$) is significantly negative. This indicates that democratic leadership style significantly weakens the positive influence of corporate governance and internal control on employee engagement.

Simple Slope Analysis

Figures 2 and 3 illustrate the negative moderating effects of democratic leadership style on the relationships between corporate governance (−0.091) and internal control (−0.092) with employee engagement. The simple effects of corporate governance and internal control on employee engagement are 0.231 and 0.097, respectively, at the average level of democratic leadership. When the democratic leadership style increases by one standard deviation, the effect of corporate governance on employee engagement decreases to 0.14 (0.231 − 0.091), while the effect of internal control reduces to 0.005 (0.097 − 0.092). Conversely, at one standard deviation below the average level of democratic leadership, the effect of corporate governance on employee engagement increases to 0.322 (0.231 + 0.091), and the effect of internal control rises to 0.189 (0.097 + 0.092).

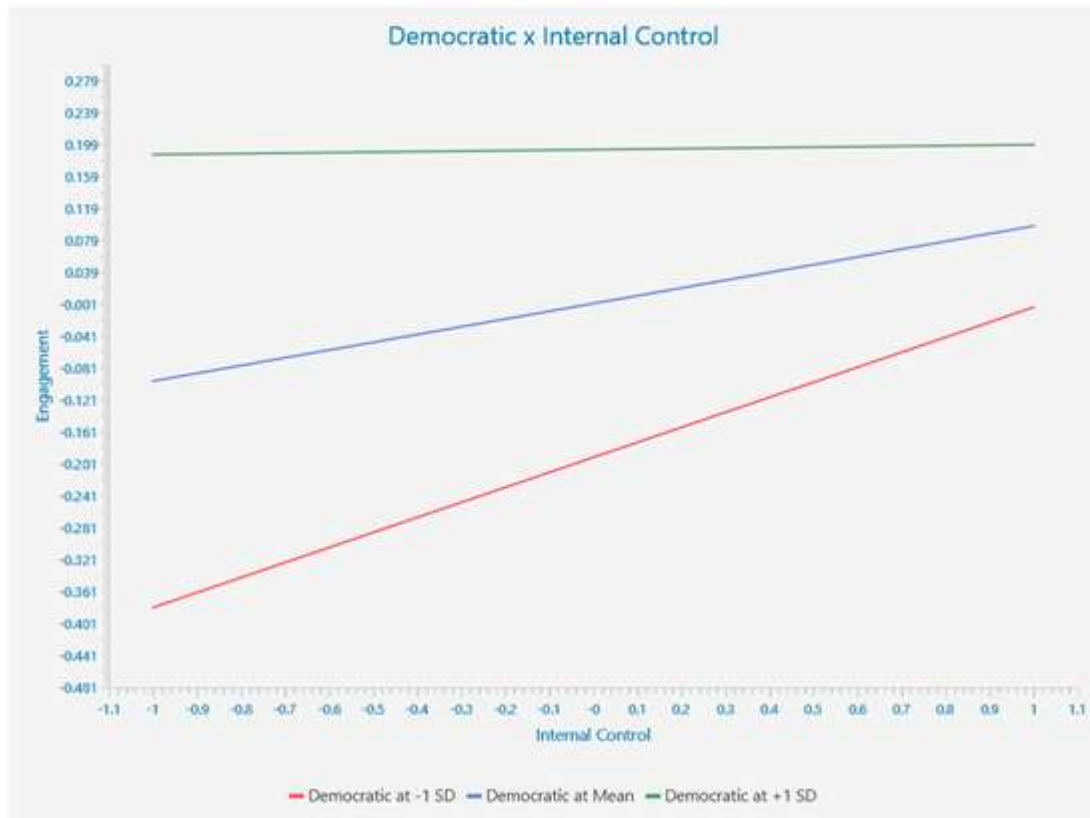


Figure 2. Simple Slope Democratic \times Internal Control.

Figures 3 and 4 present simple slope plots that visualize the two-way interaction effects, providing clearer insights into the moderator analysis. Each figure shows three lines representing the relationship between corporate governance and internal control (x-axis) and employee engagement (y-axis) at different levels of democratic leadership style. The middle line reflects the relationship at the average level of democratic leadership. The upper line represents this relationship when democratic leadership is one standard deviation above the mean, while the lower line shows it when democratic leadership is one standard deviation below the mean. All three lines have a negative slope, indicating that as corporate governance and internal control decrease, employee engagement also decreases regardless of the level of democratic leadership.

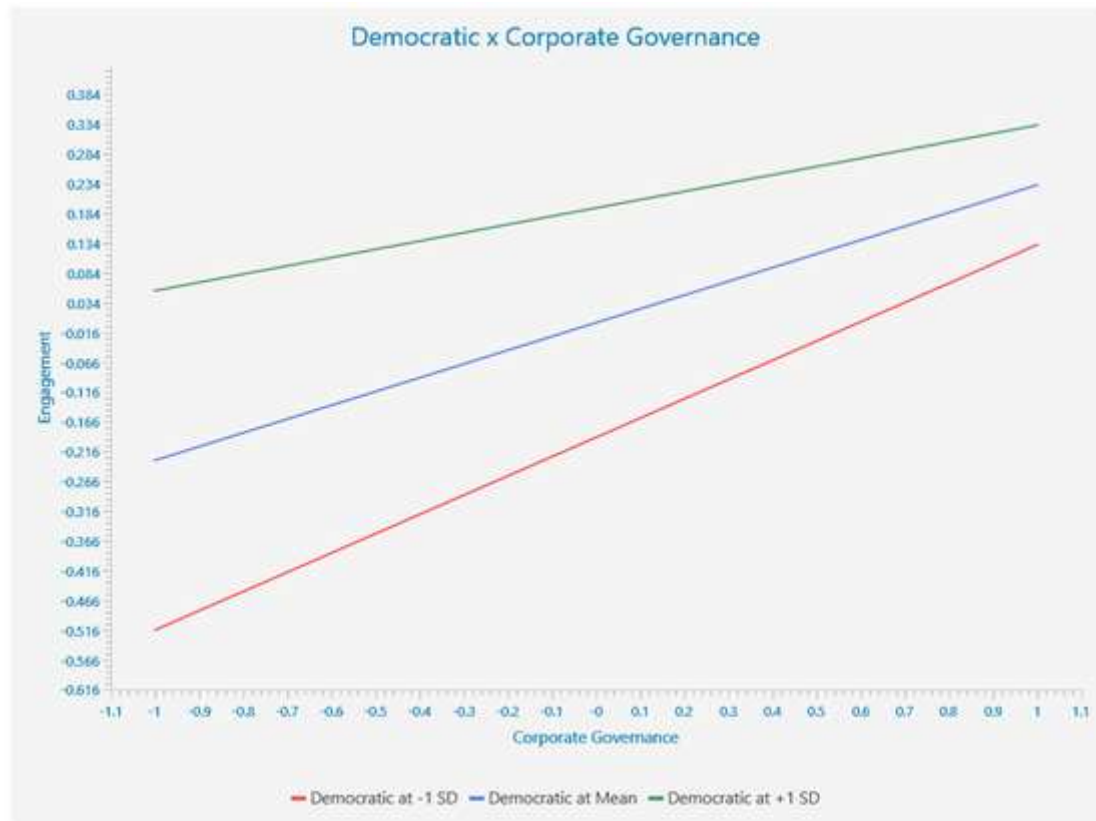


Figure 3. Simple Slope Democratic \times Corporate Governance.

Result from the Interviews

Two main arguments emerged from interviews with respondents regarding the advantages and disadvantages of democratic leadership, along with opinions on the best leadership style to implement in the Indonesian logistics and freight forwarding industry.

Advantages of Democratic Leadership: Receiving Feedback

All respondents agreed that a key advantage of democratic leadership is the ability to receive feedback from various stakeholders, including employees, customers, shareholders, creditors, and local communities. This feedback serves as a foundation for leaders to enhance their knowledge, creativity, and decision-making, which in turn drives employee engagement.

“Leaders play a very big role in engaging the team. I know this because I work in a multinational company that is completely transparent and open. We can tell when the leader listens to our needs and aspirations. When the leader cannot connect all the dots to help solve problems, subordinates feel tired, which leads to disengagement.”

— Mrs. Eka, A.P. Moller—Maersk

“What is most suitable at this time is a democratic leadership style, where leaders not only act on their own but also listen to the aspirations, criticism, and input from their subordinates.”

— Mrs. Linda, PT. GPI Logistics

“A democratic leadership style where leaders listen and respond to subordinates’ input is very helpful in implementing internal control and ultimately increases employee engagement.”

— Mr. Erry, PT. Bina Sarana Samudera Jaya

Disadvantages of Democratic Leadership: Receiving Feedback

Conversely, some respondents highlighted that receiving feedback can also be a drawback of democratic leadership, particularly when leaders lack competence or decisiveness. Excessive consultation can lead to delays and frequent adjustments, weakening organizational control.

“Very democratic leaders may potentially make too many adjustments to established rules.”

— Mrs. Lita, PT. Pos Logistics Indonesia

“In many cases, democratic leadership creates a level playing field between employees and the company, which can be problematic.”

— Mr. Maruly, Joint Venture, Indonesia-Australia Logistics Company

“Democratic leadership doesn’t necessarily weaken internal control if the leader is competent. But if the leader is indecisive and just goes with the flow during discussions without making final decisions, then democratic leadership can be harmful.”

— Mr. Subli, PT. Pancaran Group

The Best Leadership Style: Situational Leadership

Several respondents emphasized that no single leadership style fits all situations. Instead, leadership effectiveness depends on adapting style to the company’s unique conditions and employee diversity.

“Based on my over 10 years of leadership experience, you cannot adopt just one leadership style. Everyone is unique, with diversity in gender, seniority, nationality, character, and competence, which requires varied approaches.”

— Mrs. Eka, A.P. Moller—Maersk

“Leadership styles that increase employee engagement can be democratic, authoritarian, or others. The effectiveness depends on the situation and company conditions.”

— Mr. Subli, PT. Pancaran Group

Corporate Governance and Employee Engagement

Corporate governance has a positive effect on employee engagement, indicating that sound corporate governance enhances employees’ confidence in the company’s accountability to its stakeholders, including the employees themselves. This increased confidence fosters a stronger emotional attachment between employees and the organization. These findings align with previous studies by Jiang and Shen (2020), Men and Hung-Baesecke (2015), Bandura and Lyons (2017), and O’Connor and Crowley-Henry (2019), which highlight that good governance not only ensures the company’s sustainability but also promotes higher levels of employee engagement.

Internal Control and Employee Engagement

Internal control, as reflected through the control environment, risk assessment, control activities, information and communication, and monitoring, positively influences employee engagement. A strong control environment fosters a sense of value and competence among employees, with management setting a positive example of ethical behavior. This foundation supports higher levels of employee engagement. Additionally, when a company performs thorough risk assessments, employees gain confidence that the organization is proactively addressing potential operational, business, and financial risks. Effective control activities further ensure that company operations run smoothly by maintaining order and providing evidence that processes are monitored to minimize errors—both accidental and intentional. These findings are consistent with earlier studies by Robinson (2006) and Bakker and Schaufeli (2008), which concluded that robust internal control strengthens relationships and coordination within the organization, ultimately enhancing employee engagement.

Corporate Reputation and Employee Engagement

Corporate reputation (CR), as reflected through employee assessments, indicates that the company is well-recognized among business players in the logistics industry and positively influences employee engagement. It also reflects the company's clean record, free from crimes or lawsuits, which enhances its appeal to potential job seekers. Moreover, employees' satisfaction with the company's products and services in a competitive market is crucial. This highlights the importance of developing products and services based on customer feedback. Additionally, employees need to feel satisfied with their work environment, including aspects such as safety, security, office infrastructure, respect, and adequate health insurance. These factors contribute to high job satisfaction, which correlates with improved financial performance, consistent yearly profits, smooth business growth, and increased sales turnover or income. These findings support previous studies by Shirin and Kleyn (2017), which showed that employee satisfaction in companies with strong reputations enhances engagement, a conclusion also supported by Machova et al. (2022).

Democratic Leadership Style, Corporate Governance, and Employees Engagement

The democratic leadership style does not strengthen the relationship between corporate governance and employee engagement, which contrasts with the findings of Fiaz et al. (2017). In the Indonesian context, democratic leadership tends to make employees overly relaxed. Coupled with Indonesia's cultural characterization as one of the "coldest" countries in terms of work seriousness (Lastminute, 2019), this relaxed attitude leads to reduced discipline and makes managing employees more challenging, ultimately lowering their engagement. Supporting this, Mrs. Lita from PT. Pos Logistics Indonesia mentioned in an interview that democratic leadership often results in frequent adjustments to established rules, creating inconsistent governance that can contribute to employee disengagement.

Democratic Leadership Style, Internal Control, and Employee Engagement

A democratic leadership style insignificantly strengthens the relationship between internal control and employee engagement, which contrasts with the findings of Fiaz et al. (2017). This may be because democratic leadership can cause employees to feel overly relaxed and less inclined to strictly follow necessary rules, thereby undermining the effectiveness of internal control and reducing employee engagement. Supporting this view, Mr. Subli from PT. Pancaran Group noted in an interview that indecisive leadership can lead to ineffective internal control, which in turn contributes to employee disengagement.

Democratic Leadership Style, Corporate Reputation, and Employee Engagement

The findings showed that a democratic leadership style does not strengthen the relationship between corporate reputation and employee engagement, which contrasts with previous studies by Men and Stacks (2013), Fiaz et al. (2017), Shirin and Kleyn (2017), and Singh (2021). This suggests that democratic leadership, when coupled with an indecisive leader who overly relies on feedback, may result in a reputation of inconsistency for the company, thereby reducing both its reputation and employee engagement. Supporting this, Mr. Maruly from a joint venture between Indonesia and Australia in the logistics sector noted that democratic leadership often creates conflicts between employee and company interests, requiring compromises that may project an image of indecisiveness and ultimately lower employee engagement.

5. | CONCLUSION

This study investigated whether the democratic leadership style moderates the influence of corporate governance, internal controls, and corporate reputation on employee engagement. The results demonstrated that companies with good corporate governance, strong internal controls, and a solid reputation tend to have higher levels of employee engagement. However, the democratic leadership style was found to insignificantly strengthen the impact of corporate governance, internal control, and corporate reputation on employee engagement. The main advantage and disadvantage of democratic leadership revolve around “receiving feedback.” It serves as an advantage when leaders who implement democratic leadership are competent and decisive in making final decisions; conversely, it becomes a disadvantage when leaders are overly democratic, creating unclear directions for subordinates, which can lead to negative outcomes.

All leadership styles have inherent strengths and weaknesses. Based on these findings, the Indonesian logistics and freight forwarders industry should prioritize enhancing corporate governance, internal control, and company reputation. Moreover, leaders need to adopt a leadership style suited to their company’s unique situation and conditions, as no single leadership approach applies universally across all circumstances.

This study has several limitations. First, it was conducted solely within the logistics and freight forwarding industry in Indonesia, which limits the generalizability of the findings to other sectors. To improve generalizability, future research should explore similar relationships in other industries such as manufacturing, fast-moving consumer goods, and banking. Even within logistics, the industry is broad, comprising sub-sectors like forwarding, warehousing, transportation, and express services, each potentially requiring different management styles due to the nature of their activities. Therefore, future studies could focus on these specific sub-sectors for more nuanced insights.

Additionally, this research was conducted during the COVID-19 pandemic, a period marked by restricted face-to-face interactions, which may have influenced respondents' openness and the overall findings. The lack of opportunity for in-person interviews limited the depth of qualitative insights. Future studies could benefit from more offline discussions with logistics business leaders when pandemic conditions allow, providing richer perspectives.

Another limitation is that the sample only included logistics companies that are members of the Indonesian Logistics and Forwarders Association (ILFA), excluding many providers who are not members. Future research should consider including a wider range of companies to capture a more comprehensive picture of the logistics sector.

Furthermore, the demographic data in this study focused on employees with specific criteria, such as supervisory roles, education levels, and tenure, thereby excluding broader employee age groups. Future studies could broaden demographic criteria to include younger generations, such as Generation Z, who may have different attitudes and approaches to work compared to older employees.

This study also only examined the democratic leadership style, which is predominant in Indonesia. Since companies in other countries or regions might adopt different leadership styles, future research should incorporate a variety of leadership styles to provide more comprehensive findings. However, studying democratic leadership across different cultural contexts could also yield valuable comparative insights.

Lastly, this research focused on only four variables affecting employee engagement. Future studies should explore additional factors, such as organizational culture, employee education, motivation, and other relevant elements, to deepen the understanding of what drives employee engagement.

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