

Digital Service Transformation from a Change Management Perspective: A Case Study at PT BPR XYZ in Semarang

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Abstract

This research examines the digital service transformation journey at PT BPR XYZ focusing on change management as a critical factor for successful implementation. The study delves into organizational readiness, leadership involvement, employee participation, and resistance to change in a microfinance banking context. By employing a qualitative approach and conducting in-depth interviews with key stakeholders, the research highlights the importance of aligning strategic vision with digital transformation goals. It uncovers barriers such as limited technological expertise and resistance from less tech-savvy staff, alongside opportunities for cost efficiency and improved customer experiences through digital adoption. Furthermore, the findings emphasize the critical role of leadership in fostering a culture of innovation, providing consistent communication, and engaging employees at all levels to actively contribute to the transformation process. Practical implications suggest that a structured approach to managing change, supported by comprehensive training and employee empowerment initiatives, can enhance the success rate of digital transformations in microfinance institutions. This research contributes to the broader understanding of digital transformation strategies within the financial services sector, particularly in the context of resource-constrained organizations like BPR.

Keywords: change management, digital transformation, employee empowerment, innovation culture, leadership in change, microfinance, organizational readiness

INTRODUCTION

Currently, there is an increasing demand from customers regarding banking products and services that are easy, fast, and available at any time in response to changes in customer behavior towards digital (Lee & Lee, 2020). These changes encourage banks, including Rural Banks (BPRs), to innovate in the field of information technology to support operations and product and service development. BPR XYZ is a BPR with the classification of BPRKU III or BPR with core capital above Rp. 50 billion, where in 2020 BPR XYZ's capital reached Rp. 165 billion. OJK through OJK circular letter Number 45 /SEOJK.03/2017 provides opportunities for BPRKU III to carry out digital-based business activities such as Phone Banking, SMS Banking, Mobile Banking, and Internet Banking.

However, with its capital capacity, BPR XYZ Management still faces challenges in managing changes to digital services. This is indicated by the lack of digital-based services owned

by BPR XYZ compared to most other BPRKU III, this shows the gap phenomenon experienced by BPR Budi Utomo compared to other BPRKU III which have implemented digital services for their customers. BPR XYZ in digital type services did not find 165,093 million digital services for its customers.

Strategies related to optimal technology adoption are needed (Gupta et al., 2018) (Roy & Thangaraj, 2020) to increase banking productivity. Digital transformation is proven to have a positive impact on bank performance (Gupta et al., 2018). Digital transformation for the BPR industry is useful to support the improvement of BPR competitiveness related to digital products and services, by prioritizing synergy and collaboration with other institutions (BPR and BPRS Industry Development Roadmap (RBPR-S). Researchers argue that digital transformation is not about updating an organization's technology, but about building a strategy (Kane et al., 2015) (Rogers, 2016). In addition, in the era of digital transformation, it is necessary to create a corporate culture that encourages innovation (Kane et al., 2015; Vey et al., 2017), for example in terms of taking risks, focusing on the creativity and knowledge of its employees, and creating collaborative work (Kane et al., 2015).

Research with the theme of digital transformation is more associated with general topics such as digital transformation factors on organizations such as those conducted by Werth et al., (2020) and Dorfleitner et al., (2022), while research related to digital transformation change management in the banking industry or more specifically in microfinance institutions is still very limited, the topic is more researched in the manufacturing, small industry and education sectors, for example Manny et al., (2021) , Aditya et al., (2022) , Agrawal et al., (2019).

Therefore, this study aims to explore and analyze the key determinants that influence the success of digital transformation management at BPR XYZ, with a specific focus on identifying internal and external challenges faced, evaluating current digital initiatives, and proposing strategic recommendations to enhance digital capability and competitiveness in the rural banking sector. This research seeks to fill the digital transformation management research gap with the aim of knowing the determinants of digital transformation management success (Mergel et al., 2019), with the hope of identifying the obstacles and challenges of digital transformation faced primarily by the financial services industry and more specifically at Rural Banks.

RESEARCH METHODS

Based on the problems stated in the research questions, the appropriate method used in the research is qualitative research methods. According to Creswell's definition, qualitative methods in research are focused on processes that occur by understanding existing symptoms. This research focuses on the perception of a person based on his generation towards the organizational transformation process. To support qualitative research, a case study approach is used. Case study research is research to carefully investigate a matter with complete information collection using various data collection procedures. In addition, case studies are also conducted to gain a deep understanding and analyze more intensively about something against individuals, groups, or

situations. The right technique in determining individual sampling is done by finding the right data source and being able to provide the best information in solving research problems.

Population and research samples, this research was conducted at PT BPR XYZ, previously the researcher had obtained permission to conduct research at this company. The number of employees at PT BPR XYZ is 181 employees. The sample was selected to explain employee involvement in the digital transformation process that has and is happening at PT BPR XYZ. Participants are assigned to several levels or roles that describe the transformation process at each level. The expected goal is to obtain more in-depth and objective information by looking at several different levels.

The following is the population and sample of this research which will be conducted at PT BPR XYZ.

Table 1. Population and Sample

Informant	Population	Sample
Directors	3	2
Head of Information Technology Section,	1	1
Information Technology Section Employee	2	1
Head of Operations	1	1
Total	7	5

Data collection can be done through direct face-to-face interviews, qualitative observations, photo documentation and audio recordings.

RESULT AND DISCUSSION

Central Java is a province with the largest number of rural banks, PT BPR XYZ is one of the BPRs owned by individuals with the largest total assets in Central Java. The operational area of BPR XYZ covers all of Central Java, with a concentration in 3 main regions; BPR XYZ's office network covers the entire Central Java region. As of December 2022, BPR XYZ has 1 (one) Head Office, 2 (two) Branch Offices, and 11 (eleven) Cash Offices.

BPR XYZ provides a variety of banking services, with the main products being loans, savings and time deposits. In addition to banking products, BPR XYZ also offers services and conveniences in banking, including the BPR XYZ Hotline and E-Form Service. Participants in this study are decision makers and those who have a direct role in the digital service transformation process at PT BPR XYZ, which is divided into 3 (three) categories according to their role in digital transformation, namely the Board of Directors, Head of IT, IT employees, head of operations, head of marketing and marketing.

With the limitations of BPR business activities compared to Commercial Banks, OJK as a regulator, encourages service digitization through the Indonesian banking development roadmap for BPR in 2021 – 2025 (Jameaba, 2022), which contains digital service development options, among others:

Table 2. Indonesian banking development roadmap for BPR in 2021 - 2025

Category	Digital Development Options
Product Digitization Service	Mobile Banking and Internet Banking
	QRIS (QR Code Indonesian Standard) Development
	Digital Savings and Deposits
Collaboration with Fintech	Cooperation with Peer-to-Peer (P2P) Lending
	API Integration for digital services
Internal Operational Transformation	Adoption of Modern Core Banking System
	Use of Cloud Computing for digital infrastructure
	Process Automation with Robotic Process Automation (RPA)
Digital Security and Compliance	Cybersecurity implementation for digital transaction protection
	Compliance with OJK regulatory standards related to information technology and data protection
Digital Literacy Improvement	Educate customers about digital services
	Mentoring program for new customers
Local Digital Ecosystem Development	Cooperation with MSMEs for digitization and access to finance
	Digitalization of local communities based on BPR services
Adoption of Innovative Technology	Big Data and Analytics for product personalization
	Artificial Intelligence (AI) for customer service and risk analytics
	Blockchain for transparency and transaction security
Digital-Only Banking	Development of virtual branch services or digital-only banks

Table 3. The digitization of services provided by BPR XYZ

Digital Services	Description
Virtual account	Virtual account facilities that can be utilized by customers to be able to make deposits to existing accounts at BPR XYZ through transfer facilities at Commercial Banks, this service is in collaboration with one of the Commercial Banks.
E-Form	This E-Form is available on the BPR XYZ website which can be used by prospective customers to submit credit applications, open deposit accounts, however, the service is still limited to collecting initial data, the next process is still carried out conventionally.

The results of this study seek to take a closer look at the digital service transformation management process that has been carried out at PT BPR XYZ, by looking at the barriers and challenges to change in the digital service transformation process.

Digital Transformation Management Process

The digital change management process in a company includes how to create organizational readiness, employee participation, integrating digital vision and strategy, communication and how to encourage employees to take their role in digital transformation. Some of these things are related to what the real goal of the organization is to carry out digital transformation.

Digital Transformation Goals

The main purpose of the need for digital transformation is driven by the massive adoption of technology in the banking industry so that it is deemed necessary for an organization to remain competitive (Chanias et al., 2019). BPRs therefore feel the need to transform their operations and services in order to remain present and competitive in the industry. This is in line with what was stated by the President Director (2023).

"Digitalization inevitably must be adopted by all types of businesses, especially BPRs, commercial banks have various digital services, now there are even special banks that are all digital like Bank Jago,, well, our BPRs just want to be spectators, at least we can make our customers easier to get the services we have.... Of course we really need to do digital transformation so that it can be our added value in order to remain competitive ..."

This digital transformation will have a big impact on BPRs with big changes in every part, it can also change how they run their operations.

Organizational Readiness

The main reason BPR XYZ feels the need to carry out digital transformation is the change in customer behavior and desire for digital services that can facilitate them and maintain organizational competitiveness in the financial services industry, organizational readiness shown by the company from this case, among others, that they want to understand the digital services that are really expected by their consumers. This was obtained from a respondent who is the Head of the IT Department who has worked for more than 10 years in the company, with great enthusiasm concerned said that the company had collected data related to what kind of digital services customers really need.

"In early 2020, we made a poll to customers and employees regarding what features need to be included in the application that we want to make, we sorted the most needed to the unnecessary.... Actually, most customers don't need applications that can buy credit, can top up gopay, the important thing is to be able to check balances, check installments, withdraw or transfer to commercial banks.. that's more than enough" (Head of IT, 2023).

From the survey conducted, the company has the belief that with a good understanding of what customers really need can create readiness for the changes needed, such as employee readiness in responding to digital changes that will be made, as stated by IT staff who have worked for approximately 5 years at the company.

However, from the results of interviews with questions related to HR readiness related to service transformation efforts undertaken by the company, it was found that there is still a lack of competence of digitally oriented employees, either those directly involved in digital service development or those employees as users.

Leadership and Employee Participation

The President Director directly leads the digital changes made by the company, the President Director provides direct direction on what must be done in digital change, in this case each Head of Section and Head of Office is also given the responsibility to lead digital change in each section. Although the President Director has overall responsibility, there are no specific groups identified to lead digital change specifically at BPR XYZ (Ahmed, 2024).

"We have a forum called LEADER CLUB (XYZ Leader Club) where we convey ideas from below to be conveyed every time we discuss IT" (Head of IT, 2023).

Integration of Vision and Strategy

BPR XYZ has included the digitalization mission in one of their missions, namely "Providing the best financial services to the community" which emphasizes that the best financial services are one of them with the ease of digitalization so there is no need to be identified to have a separate digital transformation vision, because digitalization is part of the company's operational model that covers the whole Head of Operations interviewed explained that they have a personal service advantage and will not change the business with digitalization. BPR XYZ also sees customer-oriented service as a key element in digitalization.

"The Vision and Mission as it exists today, there has been no change since a long time ago and there has been no vision of digitalization specifically, but it should have been included in the elaboration of our mission, where we provide the best service, the best service is one of them with digitalization services ... our services are more personal by getting to know customers, hopefully with digitalization it will not change our relationship that has been known with good personal service, this is a reference for IT friends when preparing for digitalization "

Communication

Communication at all levels of the organization is another important success factor highlighted by previous research. Although BPR XYZ did not have a separate digital transformation vision, they emphasized the need to communicate the digital changes throughout the process. The main focus of communication is to create mutual understanding within the scope of work. Every employee needs to understand what is changing, why the organization is changing and what the organization's goals are, so that the entire organization is heading in the same direction (Argyris, 2017).

"Every change requires communication, we always convey every change at the forum at the leader and staff level. Vision and Mission are often just read but the most important thing is that the intent is conveyed, but (digital change) must be discussed with each employee separately. For example, what can I do so that the goals that have been discussed at the leader

level can be carried out in my team?" (Operations Manager, 2021). " (Operations Manager, 2021)

Employee Empowerment

Involving employees to play an active role in digital transformation is reflected in team building efforts. However, BPR XYZ does not have a dedicated team to lead digital transformation. One way to empower employees to deal with digital change is through training. This training includes verbal encouragement and support from managers, as well as practical training, for example in the use of digital services (Blake et al., 2022). whenever a new product or service is developed, employees participate in piloting so that they are the first to master the service before its launch to the public.

"They must be encouraged to use technology in their daily work, the leaders must also set an example, for example by collaborating online in drafting policies... therefore, these leaders play a very big role in involving their teams in every change set by the Bank"

Opportunities and Challenges of Digital Transformation

Digital transformation offers significant opportunities for organizations, especially in the banking sector. Operational efficiency can also be achieved through digital transformation, including in managing costs and work processes (Tian et al., 2023). Not only that, digitalization opens up new collaboration opportunities with partners, for example with fintech for e-kyc, which allows banks to respond to customer needs more flexibly and quickly. As stated by Marketing Manager (2023)

"Digital transformation opens up great opportunities for BPRs, such as service diversification through digital banking, increased customer accessibility through online banking, and operational efficiency in managing costs and processes. In addition, collaboration with fintech, such as e-KYC, allows us to respond to customer needs more quickly and flexibly."

The opportunities that exist are inseparable from the challenges that need to be faced. One of the main challenges is the complexity of collaboration with third parties or banking information system technology providers, as collaboration with multiple partners requires proper communication regarding the bank's needs and alignment of goals to ensure service quality is maintained. On the other hand, the limited digital competence of the workforce is an obstacle to transformation, so training and skills development is an urgent need (Foroughi, 2021).

"Digital transformation is faced with challenges such as the complexity of cooperation with technology partners, competition from startups and technology companies, and the speed of technological change that demands continuous innovation. In addition, the limited digital competence of the workforce requires special attention through training and development."

Maximizing Opportunities and Managing Challenges

To manage challenges and maximize opportunities, banks need to adopt the right strategies. Monitoring market trends and customer needs is key to staying relevant amidst competition. Focusing on digital projects that are truly valuable to customers also helps banks optimize resources (Bueno et al., 2024). With this strategy, digital transformation can be a driving force for

innovation, efficiency and service expansion, although challenges must still be proactively managed.

"Managing challenges and opportunities requires the right strategies, such as understanding market trends, focusing on value-added digital projects, and improving employees' own digital skills. This step makes digital transformation a motor of innovation and efficiency." (President Director, 2023)

Based on the literature review, evaluation of documents, and interviews with people involved in digital transformation at BPR XYZ, the researcher discussed the transformation of digital services from a change management perspective at BPR XYZ to answer the research questions, as follows:

1) Responding to Digital Competition

BPR XYZ recognizes the importance of responding to digital competition with a strategic approach that focuses on monitoring market trends and customer needs. The bank has started to identify key customer needs, such as easy access to services through digital devices. This response includes the launch of technology-based services, such as virtual account services and online forms). By understanding market trends and customer needs, BPR XYZ is able to maintain its relevance in a competitive market.

2) Management readiness to transform digital services

BPR XYZ's management readiness can be seen from two main aspects, namely, technical readiness and organizational readiness. Technically, the bank has started allocating resources to develop digital infrastructure. In the context of BPR XYZ, employee training is the foundation to ensure the change is widely accepted throughout the organization.

3) Factors inhibiting the digital service transformation process

Based on the research results, there are several inhibiting factors faced by BPR XYZ in the digital transformation process. One of the main factors is budget constraints, where the significant investment required for technology infrastructure development, employee training, and new system integration is a major challenge. The lack of adequate technology infrastructure is also an obstacle, including limited hardware, software, and network systems that have not been optimized to support modern digital services. Another factor is the limited digital competency among employees.

4) Change management strategies that can drive a successful digital transformation process

Change management strategies that can be implemented include:

- a) Communicating the Transformation Vision: Management needs to clearly communicate the digital transformation vision to all employees to create understanding and buy-in.
- b) Active Employee Involvement: This can be done through workshops, training, and rewarding employees who show good adaptation to change.
- c) Phased Approach: Transformation is carried out in stages with a focus on projects that deliver tangible results in a short period of time (quick wins).

- d) Monitoring and Evaluation: Management needs to regularly evaluate the progress of digital transformation to identify areas that require improvement.

CONCLUSION

This research aims to analyze digital transformation management at PT BPR XYZ, focusing on organizational readiness, barriers, and change management strategies. The idea behind this research is to provide a comprehensive understanding of how digital transformation can be effectively managed within a small-scale banking institution like PT BPR XYZ, which is often constrained by limited resources and traditional operational models. Based on data analysis and research findings, some of the main conclusions are as follows: Organizational Readiness , PT BPR XYZ has realized the importance of digital transformation as a necessity to improve competitiveness in the banking industry. Although there are efforts to survey customer needs and customer desires for digital services, the implementation of digital transformation is still hampered by limited human resources who are competent in the field of technology. Barriers to Digital Transformation , the main barriers include lack of employee competence in digital application development, resistance to change, and limited mastery of technology. In addition, the absence of a specific digital transformation vision reduces focused strategic direction. Change Management Strategy , digital transformation at BPR XYZ was initiated by proactive leadership. However, a dedicated team is still needed to manage this change systematically. Employee engagement through intensive training and effective communication is an important element in overcoming barriers and increasing digitalization adoption. Benefits of Digital Transformation , digital transformation is expected to improve operational efficiency, expand service coverage, and meet the needs of customers who increasingly prioritize ease and speed in transactions.

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