

## Impacts of Transformational Leadership Style, Organizational Environment and Organizational Culture on Organizational Performance

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### ABSTRACT

*The research aims at testing and analysing the impacts of transformational leadership style, organizational environment and organizational culture on organizational performance in municipal governance of Banjar Baru, South Borneo. The research reviews the correlation among variables hence belongs to explanatory research. The research site is Banjar Baru, South Borneo with 47 respondents or subjects i.e. 47 employees as representatives of institutions or offices in the scope of municipal government of Banjar Baru, South Borneo. Statistical analysis employed to test the hypothesis is Partial Least Square (PLS) program. Finally, research results show that most of the respondents are above 50 years old i.e. 28 people or 59.57 % of the whole respondents. Based on this data, it can be concluded that the predominant number of respondents are those whose aged are coming into maturity and settlement into their jobs hence through work experiences they can illustrate organizational performance of municipal government of Banjar Baru. It is expected that the research can give practical contribution, especially towards Banjar Baru government as public service provider in improving organizational performance*

**Keywords:** Transformational leadership style, organizational environment, organizational culture, organizational performance

### INTRODUCTION

The lack of government's organizational performance implies to the provided quality of public service. World Bank research reports compiled in World Development Report 2005 showed that the quality and access of marginal people towards public service in Indonesia are relatively low. Besides, economist leader of World Bank's Economic Development Research Group, Jeffrey S Hammer and senior economists of public service for World Bank's Human Resource Development, Deon Filmer stated that the people's lack of quality and access towards public service has made it difficult for Indonesia to eradicate poverty. Indonesian government should have prioritized marginal people's accessibility improvement towards public service [1]. Performance measurements cover dimensions such as effectiveness, efficiency, productivity, service quality, customers' satisfaction and effective costing [2]. Performance measurement system is a fundamental understanding of process or phenomena that are used as measurements [3]. Goals reflect public interest in activities. Goals also bind the rationales of program activities and consider facts and arguments as fundamentals to determine the ultimate goal of the program. Outcomes show possibilities to achieve ultimate goals of a program. Outcomes achieved at the end of a program will determine mid-term and long-term outcomes. Assessments towards performance can be used as an organization's success measurements in certain period of time. The assessments can also become inputs for future organizational performance refinements or improvements. Performance improvements of local government's institution can be done by, among others, improving the skills, knowledge, expertise, leadership support, structures, and management. So far, personnel'

institutions' performance has been observed indirectly from various criticisms and scholars' and people's statements, especially on dissatisfaction towards public service as well as people's lack of trust in both institution and executive legislative and judicative personnel.

Capacity building is a series of strategies that are aimed at improving efficiency, effectiveness and responsiveness of government's performance, by focusing on the dimension of: (1) Human resource development; (2) organizational strengthening; and (3) institutional reform [4]. In the context of human resource development, a focus is given on provision or supply of professional and technical personnel. The activities are, among others, training, salary/wage payment, condition and work environment adjustment and appropriate recruitment system. In relation to organizational strengthening, emphasis is given on management system to refine performance from the available functions and tasks and microstructure adjustments. Activities that should be carried out are organizing incentive system, available personnel utilization, leadership, communication and managerial structure. Institutional reform is done by giving focus on changing available systems and institutions as well as macro structure influences. "Knowledge improvement dimension is developed as a strategy to realize good governance values" [5]. Human resource development, for example, can be seen as a strategy to improve efficiency and effectiveness and maintain moral values and work ethics. Institutional development is an important strategy in order that an institution is capable of: 1) organizing strategic plan for the organization to have a clear vision; 2) formulating policies by considering values of efficiency, effectiveness, transparency, responsiveness, justice, participation and perpetuation; 3) designing organization to guarantee efficiency and effectiveness and more precise decentralization and autonomy level, and 4) carrying out managerial tasks too be more efficient, effective, flexible, adaptive and more developed. Finally, networking development, for example, is a strategy to improve cooperative or collaborative ability with outside parties on mutual grounds.

## **RESEARCH QUESTIONS**

From the description above, it is obvious that improvement of organizational performance depends highly on environment changes and organization culture. This study is carried out to describe and analyse the factors that can help improve organizational performance in the municipal government of Banjar Baru, South Borneo. The study's main variables are: leadership, organizational environment, and Organizational culture. With the background of the study presented in the previous section, this study is expected to answer the following research questions:

1. Can transformational leadership strengthen organizational culture?
2. Can transformational leadership improve the effectiveness of organizational performance?
3. Can positive organizational culture improve the effectiveness of organizational performance?
4. Can be conducive organizational environment improve the effectiveness of transformational leadership?
5. Can be conducive organizational environment improve the efficiency of organizational structure?
6. Can be conducive organizational environment strengthen organizational culture?
7. Can be conducive organizational environment improve the effectiveness of organizational performance?

## MATERIALS

### Transformational Leadership Style in Local Government Organization

Leaders are human beings who are few in numbers, but the roles in an organization determine the success of the objectives. Leadership exists in relationship among human beings, that is, influential relationship (from leader) and obedient relationship (subordinate).

“Public administration reform that has so far been done is only directed towards human resource issues in regards to personnel, institutions, system and management, but less in regards to personnel’ leadership so that reform has not given any significant contributions” [2].

According to Schein [6] initiative and encouragement to form or build an organizational culture comes from the leader, because a leader has the biggest role to tie and strengthen the cultural aspects through five main mechanisms i.e.: (i) attention, leader communicates priorities, values and pays attentions to things that can be questioned, measured, commented, praised and criticised. The communication occurs during monitoring and planning activities, (ii) reaction to crisis, where crisis has a significant impacts on organizational behaviour because of emotionality towards the crises and is able to improve the potentials to learn the basic values and assumptions about an organization, (iii) role modelling, leader can communicate values and hopes through deeds, (iv) allocation of rewards, criteria used to allocate rewards, like salary raise or promotion, (v) Criteria for selection and dismissal, leader can influence culture by recruiting people who has particular values, skills, or personalities, promoting then to authoritative positions.

### Organizational Culture of Local Government

Culture is generally associated with tradition and attitude among different countries or regions. It eventually grows an opinion that similar thing can happen in different organization. Every organization has its own way of doing something because different types of personalities tend to do different things and have different relationships forms. Utilization of organizational culture means to give opportunities to organizational culture to play more roles in improving organizational performance for achieving its objectives. However, every organization has its own distinctive cultural characteristics based on its needs.

People’s culture is also reflected in organizational culture in which the organization operates”, ... either implicitly or explicitly refers to negative implications associated with incongruence between accepted cultural norms and the reform strategies employed” [7].

### Organizational Environment of Local Government

All organization faces dynamic and changing environment. Organization’s external environment tends to become strength that encourages changes. On the other hand, organization internally feels the need of change. Anderson and Anderson [8] reveal *The Drivers of Change Model* in which environment al factors are the first main gearing factors that trigger the next factors.

### Organizational Performance of Local Government

Performance is an illustration of the achievement level of an activity/program/policy in realizing target, objectives, mission, and vision of an organization. Individual performance and organizational performance has a very close association. Organization cannot be separated from the resources owned by the organization that is run by a group of people who play active roles as actors in achieving organizational objectives. Whether individuals or

groups as executors can carry out tasks, authorities and responsibilities well or not depends highly on structure (both management and technology) and other resources such as tools and finance in an organization. Organizational performance is determined by, among others, the performance of a group of people as organization's actors. While the performance of a group of people as actors in an organization are determined by structure, tools, and finance of the organization.

“Performance refers to the result of work that can be achieved by individuals or a group of people in an organization, based on their own authorities and responsibilities in achieving organizational objectives legally, not illegitimate and in accordance to moral and ethics” [9].

## **METHODS**

This study is designed to answer the formulated questions, objectives of the study and test the hypothesis using a quantitative approach. This study belongs to, that is, a study that attempts to explain the correlation among variables through hypothesis testing [10].

The collected data are cross sectional variables of organizational transformational leadership, organisational environment and organizational performance obtained during the study.

### **Research Site**

The research site is municipal government of Banjar Baru, South Borneo that has complete secretariats, offices, boards and inspectorates. The consideration of the research site selection is the expectation that local government's performance will be reflected through the secretariats, offices, boards and inspectorates within the municipal government of Banjar Baru, South Borneo.

### **Research Population and Sample**

The number of population in the study is only 47 institutions instead of 100 institutions, hence the study uses the population as research sample i.e. 47 samples. The unit of analysis employed in this study is institution or SKPD, therefore the questionnaire proposed by the researchers must be answered by each institution's or SKPD's representative. Hence, the study uses census sampling technique i.e. using population as the sample [11]. Considering the small number, the study does not draw sample. In other words, the members of population are used as sample (census sampling). “This is often done if the number of population is relatively small, fewer than 30, or the study wants to make generalization with the smallest error scale” [12]. For data collection, an individual from each institution is selected as a respondent i.e. the official appointed to represent the SKPD.

### **Research Variables**

Based on the nature of the influence, variables in the study are divided into exogenous variable and endogenous variables. Exogenous variables are variables whose values are determined outside the model, in the study, the exogenous variables is organizational leadership. The value of endogenous variables is determined through equation or from the formed correlation models, in the case of the study they are organizational environment, organizational culture, and organizational performance.

### **Data Analysis using Partial Least Square (PLS)**

Based on the research problem, hypothesis and research design, the collected data will be analysed using quantitative method i.e. using Partial Least Square (PLS) program. PLS is

used because of the nature of the correlation among variables is in the structured form i.e. leadership, organizational environment, and organizational culture impacts towards performance.

The illustration of the development path can be seen at figure 1 below:

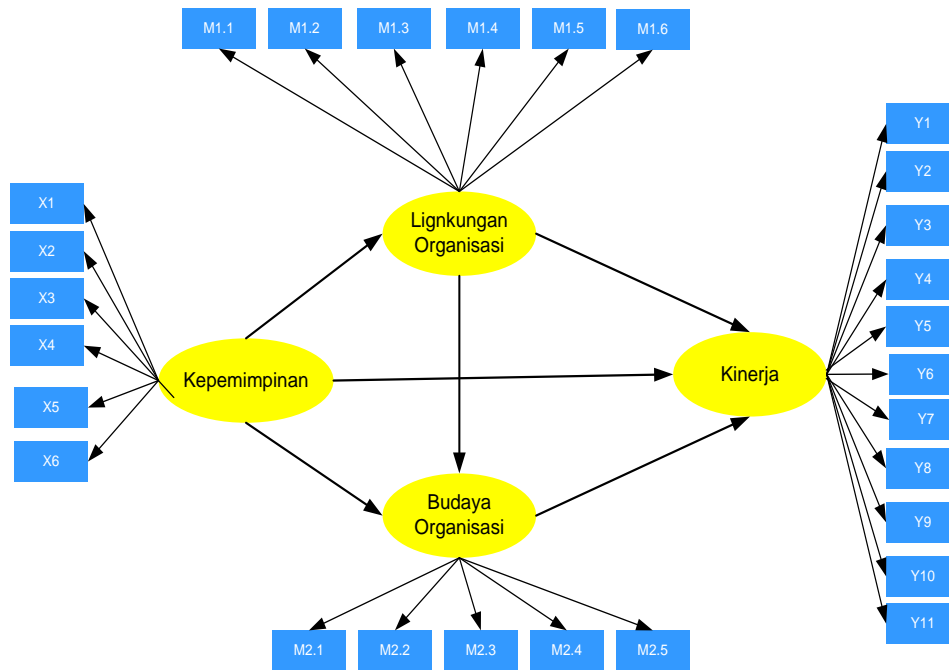


Figure 1. Correlation among Variables

## RESULTS AND DISCUSSION

### Direct Impacts

Inner model or structural model testing is basically testing hypothesis in the study. Hypothesis testing is done using T-test (statistical T) on each path of direct impact partially. The following table presents the results of the hypothesis testing of direct impact.

Table 1. Results of Hypothesis Testing in Inner Model: Direct Impact

Correlation	Path Coefficient	T-stat	p-value
Leadership (KP) → Organizational Culture(BO)	0.183	1.472	0.141 (ns)
Leadership (KP) → Performance (KI)	0.410	3.396	0.001
Organizational Culture(BO) → Performance (KI)	0.073	0.714	0.475 (ns)
Leadership (KP) → Organizational environment (LO)	0.539	6.406	0.000
Organizational environment (LO) → Organizational Culture(BO)	0.530	4.528	0.000
Organizational environment (LO) → Performance (KI)	0.470	4.154	0.000

Source: Processed data (2013)

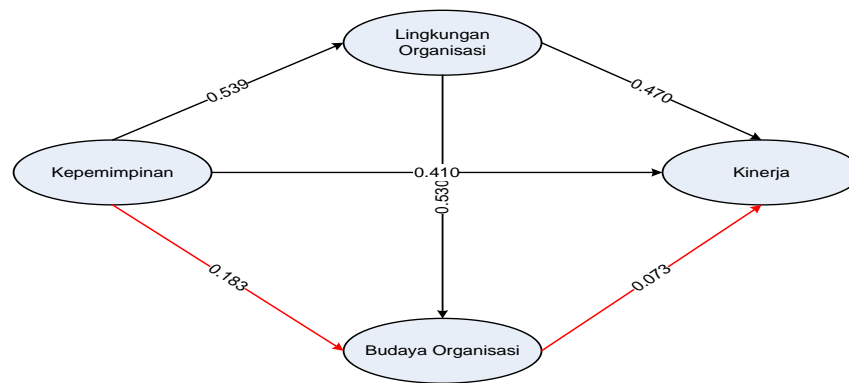


Figure 2. Results of Hypothesis Testing in Inner Model: Direct Impact

From the test results above, it can be concluded that:

1. Direct impact testing between Leadership (KP) and organizational culture (BO) obtains coefficient value of inner weight of 0.183, with statistical-T value of 1.472, and p-value of 0.141. Because statistical-T value is  $< 1.96$ , and p-value is  $> 0.05$ , there is no significant direct impact between Leadership and Organizational cultures (BO). It means that no matter how much the value of Leadership is, it will not cause changes towards Organizational culture (BO).
2. Direct impact testing between Leadership (KP) and Performance (KI) obtains coefficient value of *inner weight* of 0.410, with statistical-T value of 3.396, and p-value of 0.001. Because statistical-T value is  $> 1.96$ , and p-value is  $< 0.05$ , there is no significant direct impact between Leadership and Performance (KI). Because positive coefficient shows a unidirectional correlation, it means that the high value of Leadership will cause high Performance (KI).
3. Direct impact testing between Organizational cultures (BO) and Performance (KI) obtains coefficient value of *inner weight* of 0.073, with Statistical-T value of 0.714, and p-value of 0.475. Because Statistical-T value is  $< 1.96$ , and p-value is  $> 0.05$ , there is no significant direct impact between Organizational culture and Performance (KI). It means that the high or low value of Organizational culture does not impact on the low or high value of Performance (KI).
4. Direct impact testing between Leadership (KP) and Organizational environment (LO) obtains coefficient value of *inner weight* of 0.539, with Statistical-T value of 6.406, and p-value of 0.000. Because Statistical-T value is  $> 1.96$ , and p-value is  $< 0.05$ , there is a significant direct impact between Leadership and Organizational environment (LO). Because *inner weight* coefficient is positive, it indicates that the correlation between both is positive. It means that the higher the Leadership (KP) value, the higher Organizational environment (LO) value.
5. Direct impact testing between Organizational environment (LO) and Organizational culture (BO) obtains coefficient value of *inner weight* of 0.530, with Statistical-T value of 4.528, and p-value of 0.000. Because Statistical-T value is  $> 1.96$ , and p-value is  $< 0.05$ , there is a significant direct impact between Organizational environment (LO) and Organizational culture (BO). Because *inner weight* coefficient is positive, it indicates that the correlation between both is positive. It means that the higher Organizational environment (LO) value, the higher the Organizational culture (BO) value.

- Direct impact testing between Organizational environment (LO) and Performance (KI) obtains coefficient value of *inner weight* of 0.470, with Statistical-T value of 4.154, and p-value of 0.000. Because Statistical-T value is > 1.96, and p-value is < 0.05, there is a significant direct impact between Organizational environment (LO) and Performance (KI). Because *inner weight* coefficient is positive, it indicates that the correlation between both is positive. It means that the higher Organizational environment (LO) value, the higher Performance (KI) value.

### Indirect Impacts

Indirect impacts are presented below:

**Table 2. Results of Hypothesis Testing Hypothesis in Inner Model: Indirect Impacts**

<i>Indirect Impacts</i>	<i>Direct Impact Coefficient</i>		<i>Indirect Impact Coefficient</i>	<i>Notes</i>
KP → LO → KI	KP → LO = 0.539	LO → KI = 0.470	0.253	Significant
KP → LO → BO	KP → LO = 0.539	LO → BO = 0.530	0.286	Significant
KP → BO → KI	KP → BO = 0.183	BO → KI = 0.073	0.013	Non-Significant
LO → BO → KI	LO → BO = 0.530	BO → KI = 0.073	0.039	Non-Significant

Source: Processed Primary Data (2013) (appendix 4)

Based on the table above, the following results are obtained:

- Indirect impact testing between Leadership and Performance through Organizational environment obtains indirect impact coefficient of 0.253. Because direct impact (Leadership and Organizational environment, and Organizational environment and Performance) are both significant, it can be concluded that there is a significant indirect impact between Leadership and Performance through Organizational environment.
- Indirect impact testing between Leadership and Organizational cultures through Organizational environment obtains indirect impact coefficient of 0.283. Because direct impact (Leadership and Organizational environment, and Organizational environment and Organizational culture) are both significant, it can be concluded that there is a significant indirect impact between Leadership and Organizational culture through Organizational environment.
- Indirect impact testing between Leadership and Performance through Organizational culture obtains indirect impact coefficient of 0.013. Because direct impact (Leadership and Organizational culture, and Organizational culture and Performance) are both non-significant, it can be concluded that there is no significant indirect impact between Leadership and Performance through Organizational cultures.
- Indirect impact testing between Organizational environment and Performance through Organizational culture obtains indirect impact coefficient of 0.039. Because direct impact (Organizational environment and Organizational culture, and Organizational culture and Performance) is either one non-significant, it can be concluded that there is no significant indirect impact between Organizational environment and Performance through Organizational culture.

## **RESEARCH FINDINGS**

1. The originality of the study enriches the models of performance measurements by using variable modification to predict organizational performance measurements in municipal government of Banjar Baru within which variables of Transformational Leadership style, Organizational environment and Organizational culture are tested to find out the correlation towards Organizational performance of municipal government of Banjar Baru. In the study, the research subjects are employees of offices or institutions in municipal government of Banjar Baru.
2. The study has found that there is no significant direct impact between Leadership and Organizational culture. It means that no matter how much the value of the Leadership is, it will not cause changes on Organizational culture. Therefore, it can be concluded that habitual and traditional Organizational culture in the bureaucracy of the organization in municipal government of Banjar Baru is not influenced by the applied Leadership style within the organization.
3. The result of the study shows that there is no significant direct impact between Organizational culture and Performance. It means that the high or low value of Organizational culture does not influence the high or low value of Performance. Therefore, it can be concluded that habitual and traditional Organizational culture that has become as the behaviour or tradition in the bureaucracy of the organization in municipal government of Banjar Baru is not influenced by Organizational performance.
4. The result of the study shows that there is a significant direct impact between Leadership and Organizational environment. It means that the higher Leadership value, the higher Organizational environment value. Therefore, it can be concluded that leader must give extra attention towards Organizational environment to achieve organization's objectives.
5. The study has found that most of respondents are aged above 50 years old i.e. 28 respondents or 59,57 %. Based on the data, it can be concluded that the majority of the respondents are those who are entering maturity phase and settlement in carrying out their jobs, hence through their work experience they can give illustration on organizational performance of local government in Banjar Baru.

## **CONCLUSION**

Based on the research discussion and result of the study on the impacts of Leadership, Organizational environment, and Organizational culture towards Performance, several conclusions can be outlined as follows:

1. There is no significant direct impact between Leadership and Organizational culture. It means that no matter how much the value of Leadership is, it will not cause changes on Organizational culture. Then, it can be concluded that manifested Organizational culture in the organization of municipal government of Banjar Baru, South Borneo has become accepted habit so that the pattern of transformational leadership that is applied cannot influence or change the existing Organizational culture.
2. There is a significant direct impact between Leadership and Performance. Because positive coefficient is how unidirectional correlation, it means that the higher the



Leadership value, the higher the Performance value. Then, it can be concluded that the pattern of transformational Leadership that is applied in the organization of municipal government of Banjar Baru, South Borneo can influence organizational performance.

3. There is no significant direct impact between Organizational culture and Performance. It means that the high or low value of Organizational culture does not influence the high or low value of Performance. Then, it can be concluded that the manifested Organizational culture in the organization of municipal government of Banjar Baru, South Borneo has become an accepted habit so that it cannot influence organizational performance.
4. There is a significant direct impact between Leadership and Organizational environment. Because inner weight coefficient is positive, it indicates that the correlation between both is positive. It means that the higher the Leadership value, the higher the Organizational environment value. Then, it can be concluded that the pattern of leadership that is applied in the organization of municipal government of Banjar Baru, South Borneo can influence the existing Organizational environment.
5. There is a significant direct impact yang significant between Organizational environment and Organizational culture. Because inner weight coefficient is positive, it indicates that the correlation between both is positive. It means that the higher the Organizational environment value, the higher the Organizational culture value. Then, it can be concluded that the existing Organizational environment in the organization of municipal government of Banjar Baru, South Borneo can influence the existing Organizational culture.
6. There is a significant direct impact between Organizational environment and Performance. Because inner weight coefficient is positive, it indicates that the correlation between both is positive. It means that the higher Organizational environment value, the higher the Performance value. Then, it can be concluded that Organizational environment that is applied in the organization of municipal government of Banjar Baru, South Borneo can influence the existing Organizational performance.
7. There is an obvious existence of significant indirect impacts between Leadership and Performance through Organizational environment. Then, it can be concluded that the pattern of leadership applied in the organization of municipal government of Banjar Baru, South Borneo can influence the existing Organizational performance i.e. through the influence of Organizational environment.
8. There is an obvious existence of significant between Leadership and Organizational culture through Organizational environment. Then, it can be concluded that the pattern of leadership applied in the organization of municipal government of Banjar Baru, South Borneo can influence the existing Organizational culture i.e. through the influence of Organizational environment
9. There are no significant indirect impacts between Leadership and Performance through Organizational culture. Then, it can be concluded that the pattern of leadership applied in the organization of municipal government of Banjar Baru, South Borneo cannot influence the existing Organizational performance i.e. through the influence of Organizational culture

10. There are no significant indirect impacts between Organizational environment and Performance through Organizational culture. Then, it can be concluded that the existing Organizational environment in the organization of municipal government of Banjar Baru, South Borneo cannot influence the existing Organizational performance i.e. through the influence of Organizational culture.

## RECOMMENDATIONS

1. In each secretariat, office, or board in the municipal government of Banjar Baru, South Borneo sure has high achieving employees with real achievements and high commitment to work well in his unit of work. For these types of employees, promotion or career rank advancement can be considered. Other than that, reward system is necessary to avoid misleading opinion which is well known as "PGPS" (*Pinter Goblok Penghasilan Sama*) or same amount of salary for both high and low achieving employees. This opinion might bring about discouragement, frustration and less passion to work. In addition to the existing fringe benefits, these employees need performance incentives which are temporary with regular evaluation. It is expected that this method will indirectly motivate other employees to to the same thing so that in the long run it will create a healthy competitive environment among employees to work more passionately.
2. Transparency is necessary especially in the form of recruitment for echelon officials. It is about time to give competence test for candidates of officials that are going to be appointed into important positions. This is aimed at placing the right person at the right position based on the skills, instead of merely based on managerial and administrative evaluation. Based on empirical reviews in this study, it shows that organizational leadership organization has a huge impact on organizational culture that will eventually lead to impacting on organizational performance. The study is also based on an opinion stated by Hunger and Wheelen [13] that organization effectiveness depends on the skills and expertise organization leader that cover three basic skills i.e. technical, humane and conceptual skills.
3. The procedure of program organization is still done through a long chain of bureaucracy even though restructuring has been done to attempt downsizing and rightsizing strategies. With the long chain of bureaucracy, the process of a program proposal until the execution takes a relatively long time hence the execution of the program can only occur in a short period of time. This may lead to haste in carrying out the program due to the limited time. Municipal government of Banjar Baru, South Borneo is supposed to learn to cut down the chain of bureaucracy in such a way that does not violate the regulation.

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