

The Impact of Transformational and Transactional Leadership on Organizational Performance Through Organizational Learning at Micro, Small and Medium Enterprises

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Abstract. This study aims to analyze the effect of transformational and transactional leadership on organizational performance in Micro, Small and Medium Enterprises (MSMEs) both directly and through organizational learning as a mediating variable. Data were collected using survey methods through a questionnaire. The population is the owner of Micro, Small and Medium Enterprises in Malang. The sampling technique used purposive sampling with 76 respondents. The analytical method used is path analysis with the Smart PLS3 program. The results showed that transformational leadership has a significant effect on organizational performance; transactional leadership has no significant effect on organizational performance; transformational and transactional leadership have a significant effect on organizational learning; organizational learning has no significant effect on organizational performance; organizational learning has no mediating role on the effects of transformational and transactional leadership.

Keywords: *transformational and transactional leadership, organizational learning, organizational performance, micro small and medium enterprises.*

INTRODUCTION

Currently, micro, small and medium enterprises play a significant role because it absorbs a large number of workers and has a good defensive capability. Unstable economic conditions make companies act rationally by minimizing the number of workers they have. With the increase in population, the problem of unemployment in Indonesia also gets higher. The alternative solution is to open job opportunities through small, micro and medium enterprises [1]. Thus, through the Ministry of Cooperatives and Small and Medium Enterprises, the Indonesian government encourages people to open new businesses. In Malang, MSMEs increase rapidly every year. There were 77,000

MSMEs in 2014, and the number increased to 113,000 in 2018. The MSME business sector in Malang consists of furniture, culinary, convection, handicrafts, automotive, and forest products. The increase in MSMEs must be supported by various parties, especially the government and universities. The main problems of MSMEs include capital issues, product standardization, marketing, and human resources.

Human resources are essential assets for the company. Although MSMEs require relatively few employees compared to large companies, quality human resources are needed for the business's success. To create a sustainable business in the long run, leaders' role is paramount in managing human resources so that each employee makes a maximum contribution to the company. The role of the leader can encourage employees to work optimally to improve employee performance. Several studies found that leadership style is influential in improving employee performance in the MSME industry [1]. However, some other studies find leadership styles to have a negative influence on employee performance [2]. Transactional leadership, especially reward-based leadership and exception management, does not function well and tends to affect employee performance negatively [3]. Thus, the right leadership style is fundamental in influencing employee performance, especially in micro, small and medium enterprises.

The organization needs a leader who can improve organizational performance. There are two leadership styles: transformational and transactional leadership. Transformational leadership is the ability to influence other individuals to achieve organizational goals. Transformational leaders will provide direction, motivation, and attention to individuals to achieve organizational goals together [5]. On the other hand, transactional leadership is the ability to influence individuals by providing rewards following their work results [6]. The difference between the two leadership styles is often associated with the impact on organizational performance. Organizational performance can be determined by the role of the leader in directing a job [7]. Transformational leadership has a significant effect on organizational performance

[8], [9]. Another research found that transactional leadership has a significant influence on organizational performance at SMEs in Nigeria [10].

Besides, organizational learning is the ability of an organization to maintain and improve performance based on experience between leaders and employees. The effect of transactional and transformational leadership styles on organizational learning was investigated in previous research [11], [12]. Organizational learning was found to have a role in improving organizational performance [8]. The study also showed that behavioral and cognitive changes ultimately impacted organizational performance, and organizational learning significantly impacted on organizational performance [8]. For this reason, organizational learning is an important variable used in mediating the influence of transformational and transactional leadership on organizational performance. This study aims to analyze the effect of transformational and transactional leadership on organizational performance in MSMEs, both directly and through organizational learning as a mediating variable.

METHOD

This is an explanatory study, which aims to explain causality between variables through hypothesis testing. The population is owners of MSMEs in Malang. The data were collected through a questionnaire. The measurement used a Likert scale with 5 alternative answers, from 1 (strongly disagree) to 5 (strongly agree). The sampling technique was purposive sampling with 76 respondents (furniture business owners).

The data were analyzed using Scale Range to describe transformational and transactional leadership, organizational learning, and organizational performance. The inferential statistics were calculated with path analysis using Smart PLS 3 to test the effect of leadership on organizational performance (both directly and through mediating organizational learning variables). The Sobel test was used to test the significance of organizational learning mediation and the effect of transformational and transactional leadership on organizational performance. Also, examination tests were used to test the nature of mediation.

RESULT & DISCUSSION

Characteristics of Respondents

Respondents in this study were 76 owners of MSMEs in Malang city. The respondents' characteristics were identified based on age, sex, education, family status, and length of employment. Most respondents aged between 21

and 30 years old (37.3%), were male (83.15) and held a high school degree.

Path Analysis

The analytical tool used was path analysis using smart PLS 3.0 programs. Outer measurement model consists of (1) Convergent Validity; (2) Average Variance Extracted (AVE), and (3) Composite Reliability.

Outer Model Testing

Convergent Validity

The results of the analysis show that all constructs produce a loading value of 0.6, which means that all constructs are valid, while reliability was evaluated using AVE and Composite Reliability. If the AVE value is > 0.50 , then the construct meets reliable requirements, while the composite reliability value is considered very good if the value is > 0.70 [13]. The results of the outer model analysis show that the value of the loading factor of all items used is > 0.5 , so it is concluded that all items used in the questionnaire are valid.

Reliability testing produces AVE values > 0.50 and composite reliability > 0.70 , so the variables are declared reliable.

Testing the Goodness of Fit Model

The goodness of fit model testing can be seen from the predictive-relevance value (Q^2). The value of R^2 variable organizational learning is 0.672, while the R^2 value of the organizational performance variable is 0.588.

Thus, the following predictive-relevance value (Q^2) is obtained:

$$Q^2 = 1 - (1 - R^2) (1 - R^2)$$

$$Q^2 = 1 - (1 - 0.672) (1 - 0.588)$$

$$Q^2 = 0.8648$$

The calculation of predictive-relevance (Q^2) value is 0.8648 or equal to 86.48%, so the model is considered feasible and has relevant predictive value. This value explains that the diversity of data built with the PLS model from the variables studied is 86.48%, and the remaining 13.52% is explained by variables not examined and errors. These results indicate that the PLS model formed is excellent because it can explain 86.48% of the overall information.

Inner Model Testing

The results of data analysis on the influence of transformational and transactional leadership on organizational performance (directly or through organizational learning as a mediating variable) are shown in Figure 1.

Hypothesis Testing and Direct Influence Coefficient

Hypothesis testing and path coefficients directly influence the transformational and transactional

leadership variables, organizational learning on organizational performance seen from the path coefficient values, t statistics, and p-value. The results of the hypothesis testing of direct influence can be seen in Table 1.

Table 1. Results of Direct Effect of Hypothesis Testing

Independent Variable	Dependent Variable	Coefficient Path	t statistic	p-value	Description
Transformational Leadership	Organizational performance	0.408	2.489	0.010	Significance
Transactional Leadership	Organizational performance	0.294	1.643	0.103	Not Significance
Organizational learning	Organizational performance	0.099	0.933	0.363	Not Significance

Source: Processed primary data

Effect of Transformational Leadership on Organizational Performance

The direct effect testing of transformational leadership on organizational performance generated the path coefficient of 0.408 with t-statistics of 2.489 and a p-value of 0,010. Because the t-statistic value is 2.489>1.96, and the p-value is <0.05, transformational leadership has a significant effect on organizational performance. These results prove that transformational leadership has a direct and

significant effect on organizational performance. If transformational leadership gets better or more effective, leadership will improve organizational performance. Conversely, the worse or less effective the leadership, the organizational performance will be lower. This finding is similar to previous research, which revealed that transformational leadership had a significant effect on organizational performance [14].

Influence of Transactional Leadership on Organizational Performance

The direct effect testing of transactional leadership on organizational performance generated the path coefficient of 0.294 with t-statistics of 1.643 and a p-value of 0.103. Because the t-statistic value is 1.643< 1.96 and the p-value is >0.05, then transactional leadership has no significant effect on organizational performance. This study's results differ from the findings of other studies that mentioned the significant influence of transactional leadership on organizational performance [10].

Effect of Organizational Learning on Organizational Performance

The direct effect testing of organizational learning on organizational performance yielded the path coefficient of 0.099 with t-statistics of 0.933

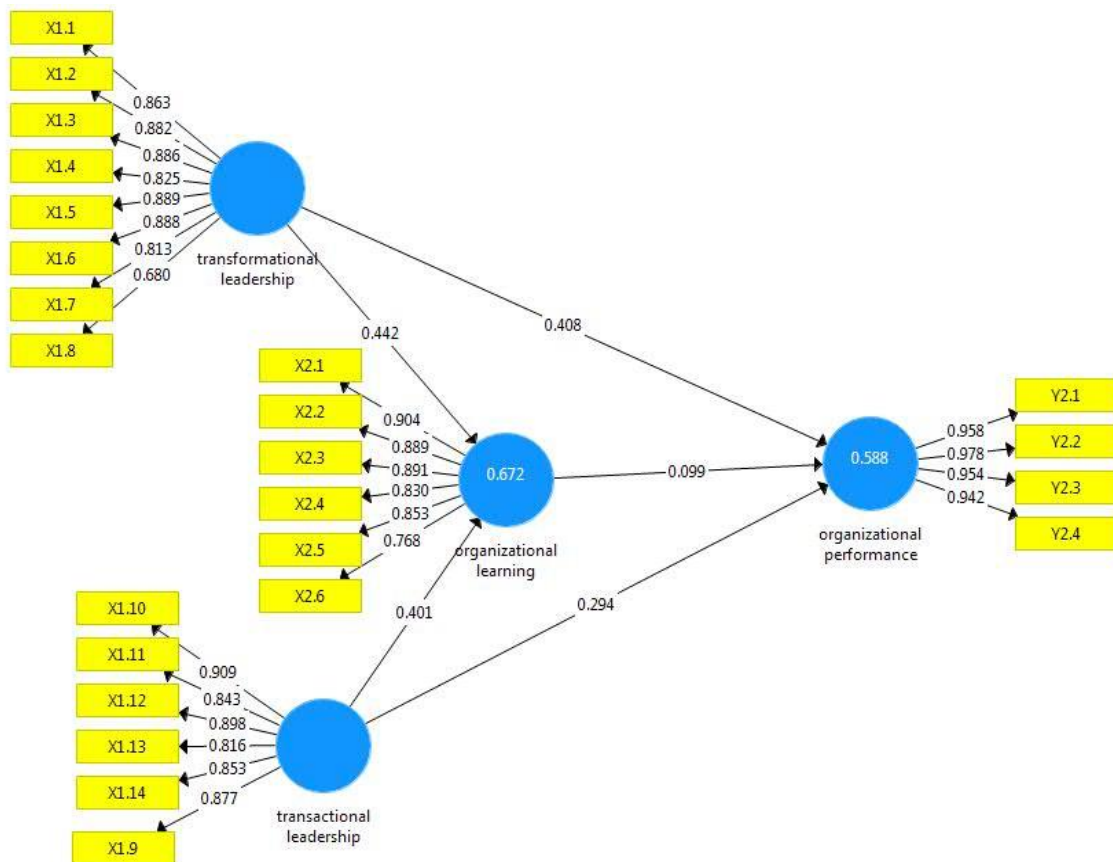


Figure 1. Structural Model Path Diagram in PLS Effect of Transformational and Transactional Leadership on Organizational Performance

and a p-value of 0,363. Because the t-statistic value is $0.933 < 1.96$ and the p-value is > 0.05 , then organizational learning has no significant effect on organizational performance. When the organization has organizational learning, it does not affect organizational performance.

Effect of Transformational and Transactional Leadership Testing on Organizational Performance with Organizational Learning as a Mediating Variable

Tests were carried out by procedures developed by Sobel or referred to as the Sobel test. The Sobel test uses a free Sobel software test calculator or the significance of mediation version 4.0 [15]. The analysis of the influence of transformational leadership on organizational performance by mediating organizational learning indicates that organizational learning had no mediates with a p-value Sobel test of $0.388 > 0.05$. Likewise, the influence of transactional leadership on organizational performance through organizational learning has a p-value of $0.393 > 0.05$. It indicates that organizational learning has no mediating role in the effects of transformational and transactional leadership on organizational performance.

CONCLUSION

The research findings are summarized as follows: (1) transformational leadership has a significant effect on organizational performance. The better and effective leadership, the higher the organizational performance; (2) transactional leadership has no significant effect on organizational performance; (3) organizational learning has no significant effect on organizational performance; (4) organizational learning has no mediating role in the influence of transformational and transactional leadership on organizational performance.

It can be suggested for MSME actors that transformational and transactional leadership be done simultaneously to improve organizational learning and organizational performance. Leaders can increase coaching time for employees, appreciate work processes more than the final results, care more about everything that employees do, and not only when problems occur because, based on the analysis results, the scale has the lowest value compared to other items. Future researchers can explore MSMEs in other fields, such as MSMEs in the service sector. Other variables can also be included, such as knowledge sharing and organizational culture, considering there are other variables that affect performance other than leadership and organizational learning.

Limitations of this study: (1) only examines the organizational performance and does not further examine the employee performance; and (2) only limits to aspects of the organization and does not discuss human resource aspects. In addition to HR, the success of MSMEs may be determined by HR factors.

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