



# Effects of Leadership Style on Employee Performance Through Employee Retention

Muhamad Riza<sup>1,\*</sup>, Dita Ainina<sup>2,\*</sup>, Anisa Yuniba<sup>3\*</sup>

*1Muhammad Faisal Riza*

*Faculty of Administrative Sciences, University of Brawijaya, Malang – Indonesia. Corresponding Author*

*Email: faisalriza@ub.ac.id*

*2Dita Rzkya Nur Ainina*

*Faculty of Administrative Sciences, University of Brawijaya, Malang – Indonesia. Email: ditarizk@ub.ac.id*

*3Anisa Bilqis Yuniba*

*Faculty of Administrative Sciences, University of Brawijaya, Poor- Indonesia. E-*

*mail: anisablqyuniba1917@gmail.com*

## ABSTRACT

This study aims to analyze the effect of leadership style on employee retention and employee performance in an organizational context. The independent variable in this study is leadership style consisting of Democratic Leadership (X1), Autocratic Leadership (X2), Laissez-faire Leadership (X3), and Transformational Leadership (X4). The dependent variables include Employee Resistance (Y1) and Employee Performance (Y2). Quantitative methods were used in this study, using the Partial Least Squares Structural Equation Modeling (PLS-SEM) version 4 analysis tool. Data were collected through a survey of employees from various levels in the organization. Seven hypotheses were proposed and tested through data analysis using the PLS-SEM technique. Experiments were carried out twice to ensure the reliability and validity of the results. The results of this study reveal the significant impact of leadership style on employee resistance and employee performance. More specifically, the transformational leadership style has a strong positive effect on employee performance, while the democratic leadership style is associated with lower levels of employee resistance. On the other hand, autocratic and laissez-faire leadership styles tend to be associated with higher employee resistance. These findings provide important implications for management practice in understanding how leadership style influences employee retention and performance. By recognizing the positive impact of the transformational leadership style, organizations can focus more on developing leaders who are able to motivate and inspire employees. Besides that, This research underscores the importance of a democratic approach to leadership to reduce employee resistance. The overall results of this study provide valuable guidance for human resource management in improving leadership effectiveness and organizational performance.

**Keywords:** *Leadership Style, Employee Performance, Employee Retention, HR Management*

## 1. INTRODUCTION

Leadership is one of the most essential areas in organizational management. Alan, M [1] defines leadership as a process in which an individual influences a group of individuals to achieve a common goal. Bass, BM [2] also defines leadership as a person's ability to influence the behavior or actions of others to achieve goals and maximize results in the organization. Good leadership is essential for organizational efficiency and effectiveness. Today, organizations employ different leadership styles depending on their nature and operations. Different types of leadership styles will be effective in achieving organizational goals and objectives in different situations in the workplace. Managers' leadership style is related to employee job satisfaction, retention, and performance

© The Author(s) 2024

Y. A. Yusran et al. (eds.), *Proceedings of the 2023 Brawijaya International Conference (BIC 2023)*, Advances in Economics, Business and Management Research 294,

[https://doi.org/10.2991/978-94-6463-525-6\\_65](https://doi.org/10.2991/978-94-6463-525-6_65)

improvement, which can be achieved through effective leadership. Therefore, leaders play an essential role in the continuity and progress of an organization. Browell & C Masabo [3] also stated that leadership helps achieve organizational goals and objectives.

Business Essentials [4] definition of leadership style, focusing on motivating and influencing followers towards organizational goals, lays the groundwork for understanding leadership dynamics. To enrich this perspective, it is imperative to consider how leadership styles impact not only the immediate work environment but also the overall organizational culture. Previous research has indicated that a leader's ability to adapt their style to fit organizational goals is crucial for fostering a positive and productive work atmosphere. By delving into these nuanced aspects, the study aims to provide valuable insights applicable to the dynamic landscape of contemporary organizations. Ethe, J [5] seminal work on participatory leadership styles presents a timeless framework for comprehending the intricacies of leadership. Expanding on this, it is essential to recognize that leadership styles are not rigid categories but rather fluid approaches that leaders may employ depending on the specific circumstances. Autocratic leadership, as highlighted by Hair Jr [6] might be effective in certain situations where quick decisions are required, but its long-term impact on employee morale and engagement needs careful consideration. By acknowledging the nuanced nature of these leadership styles, the study aims to contribute practical guidelines for leaders at PT Cakra Jawara Iveco to navigate a dynamic and challenging industry landscape.

Within the context of PT Cakra Jawara Iveco, understanding the implications of leadership styles gains particular urgency. The automotive industry is inherently competitive and subject to rapid technological advancements. Thus, the study's focus on Lewin's participative leadership styles becomes crucial, given their potential impact on employee retention and performance. By situating the research within the organizational dynamics of PT Cakra Jawara Iveco, the study aims to offer tailor-made recommendations that align with the specific challenges and opportunities present in the company. This research not only contributes to the theoretical understanding of leadership styles but also directly addresses the practical needs of a real-world business environment.

Moreover, the study's relevance is heightened by the current global emphasis on employee well-being and organizational effectiveness. As organizations strive to create inclusive and empowering work environments, the role of leadership in shaping these cultures becomes paramount. The research at PT Cakra Jawara Iveco is strategically positioned to contribute valuable insights that can be leveraged not only within the company but also by other organizations in the automotive sector. In doing so, the study transcends its immediate context and becomes a beacon for leadership best practices in a broader industrial landscape. The urgency of this research lies not only in its potential to enhance the performance of PT Cakra Jawara Iveco but also in its capacity to inform and inspire positive change across the industry.

## 2. METHODS

Employees of the Indonesian company PT. Cakra Jawara Iveco in Jakarta participated in the survey. Democratic Leadership (X1), Autocratic Leadership (X2), Laissez Faire Leadership (X3), Transformasional Leadership (X4), Employee Retention (Y1), Employee Performance (Y2), and employee performance success they are the six variable used in this sort of quantitative study. The population and sample are determined using the Hair formula, and the score is calculated using the Likert scale:

Minimum sample size = Number of indicators x 5

Additionally, are 34 indicators multiplied by 5 to get a minimum sample size of 170. Conducting data analysis in this study using SmartPLS 4.0 software, using inferential statistical analysis with six steps of structural equation modeling (SEM), which will be assessed descriptively.

## 3. RESULT AND DISCUSSION

### 3.1 Results

In the SEM test, there are at least three steps of analysis, namely: (1) testing the relationship between indicators and latent or construct variables (the outer model or measurement model); (2) testing the relationship between latent or construct variables (the structural model); and (3) testing the compatibility model. The results of the calculations on the construct validity and reliability tests are shown in Figure 1 below, which is the result of running the outer model test (measurement model).

Figure 1 below shows the results of the construct validity and reliability tests. Questions or indicators with a loading factor value of 0.7 will be excluded from the model when testing their validity Hair Jr [7]. In Figure 1, it can be seen that the first running output shows that there is a loading factor value of 0.7, which will then be excluded from the model one by one, namely:  $\lambda X1.6 = 0.690$ ,  $\lambda X1.7 = 0.652$ ,  $\lambda X1.8 = 0.661$ ,  $\lambda X1.9 = 0.591$ ,  $\lambda X2.1 = 0.655$ ,  $\lambda X2.2 = 0.452$ ,  $\lambda X2.3 = 0.699$ ,  $\lambda X2.5 = 0.683$ ,  $\lambda X2.6 = 0.575$ ,  $\lambda X3.4 = 0.179$ ,  $\lambda X3.5 = 0.141$  (figure 1). After running twice, the external model is obtained, which contains all indicators with a loading factor value of  $> 0.7$ .

Figure 1 PLS Algorithm Run 2

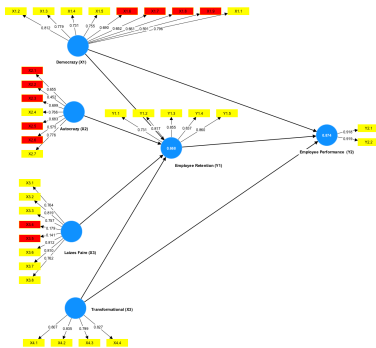
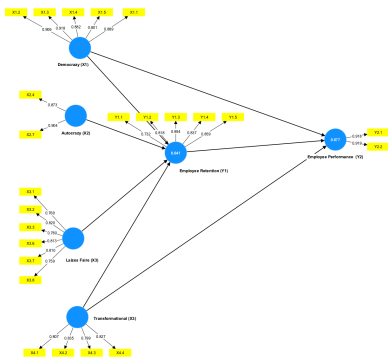


Figure 2 PLS Bootstrapping



The influence analysis between latent and construct variables in the SEM model is nothing more than testing the structural model in path analysis. In the inner model, the research hypotheses will be proven. In this study, the analysis used bootstrapping using SmartPLS software. The results of running calculations with Bootstrapping are shown in Figure 2 below, and the results of several stages of the analysis are explained below.

To complete the analysis in this study, the authors display a table of hypothesis test results. This can be seen in the table.

**Table 1.** Hypothesis Test

	Sampel asli (C)	Rata-rata sampel (M)	Standar deviasi (STDEV)	T statistik (DISTDEV)	Nilai P (P values)
Autokrasi (X2) → Employee Retention (Y1)	0.259	0.257	0.077	3.369	0.001
Demokrasi (X1) → Employee Performance (Y2)	0.071	0.071	0.032	2.199	0.028
Demokrasi (X1) → Employee Retention (Y1)	0.139	0.140	0.056	2.406	0.016
Employee Retention (Y1) → Employee Performance (Y2)	1.018	1.018	0.031	33.337	0.000
Laissez Faire (X3) → Employee Retention (Y1)	0.359	0.359	0.091	3.932	0.000
Transformational (X4) → Employee Performance (Y2)	-0.197	-0.195	0.039	-4.955	0.000
Transformational (X4) → Employee Retention (Y1)	0.185	0.187	0.075	2.472	0.013

Source: Processed data for 2023

Shown in Table 1 above is the calculation result of bootstrapping to test the inner model, which describes the research hypotheses in the SEM model simultaneously. The results of the path analysis explaining the direct effects of one construct on another are as follows:

1. H1 = democratic leadership (X1) positively affects Employee Retention (Y1) with a path coefficient of  $px1y1 = 0.139$  and  $p\text{-value} = 0.016$ . So, the first hypothesis is proven.
2. H2 = autocratic leadership (X2) positively affects employee retention (Y1) with a path coefficient of  $px2y1 = 0.259$  and  $p\text{-value} = 0.001$ . So, the second hypothesis is proven.
3. H3 = Laissez Faire's leadership (X3) positively affects employee retention (Y1) with a path coefficient of  $py1y2 = 0.359$  and  $p\text{-value} = 0.000$ . So, the third hypothesis is proven.
4. H4 = transformational leadership (X4) positively affects employee retention (Y1) with a path coefficient  $px3y1 = 0.185$  and  $p\text{-value} = 0.013$ . So, the fourth hypothesis is proven
5. H5 democratic leadership (X1) positively affects employee performance (Y2) with the path coefficient  $px1y2 = 0.213$  and  $p\text{-value} = 0.028$ . So, the fifth hypothesis is proven.
6. H6 transformational leadership (X4) has a negative effect on employee performance (Y2) with a path coefficient of  $px4y2 = -0.009$  and  $p\text{-value} = 0.000$ . So, the sixth hypothesis is proven.
7. H7 employee retention (Y1) affects employee performance with a path coefficient  $py1y2 = 1.018$  and  $p\text{-value} = 0.000$ .

**Model Fit Testing**

At the stage of testing the model's suitability, there are five types, among others, by looking at the coefficient of determination (R square), f square, q square, and the standardized root mean square residual (SRMR). In this paper, researchers only used two model fit tests: R square and SRMR. The initial stage of testing the suitability of the model is to determine the value of the coefficient of determination (R square). The results of calculating R2 are shown in Table 2 below.

**Table 2.** Model Fit Test (R-square)

	R-square	Adjusted R-square
Employee Performance (Y2)	0.877	0.874

Employee retention (Y1)	0.641	0.633
-------------------------	-------	-------

Source: Processed data for 2023

Table 2 shows that the model fit test with the R-square test shows a significance level of 0.641 or 64% in the Y1 variable. This means that the percentage value of the influence of exogenous variables, namely democratic leadership, autocratic leadership, laissez-faire leadership, and transformational leadership as exogenous variables on the endogenous variable of employee retention is 64%. Next is still in Table 6, that the model fit test with the R-square test shows a significance level of 0.877 or 87% in the Y2 variable. This means that the percentage value of the effect of the endogenous variable, namely employee retention, on another endogenous variable, namely employee performance, is 87%.

**Table 3. SRMR Test**

IndexFit	Fit Criteria	Marginal Fit Criteria	Results
Standardized Root Mean Square Residual (SRMR)	≤ 0.08	0.08 – 0.09	0.082

Source: Processed data for 2023

The value that describes the model's mismatch based on the residuals is the SRMR value. Therefore, the model is better and more accurate with a smaller SRMR value. If the SRMR value is 0.08, the model is considered to be fit; if it is between 0.08 and 0.10, the model is said to be marginal; and if it is more significant than 0.10, the model is said to be wrong (unsuitable). Given that the model fit is marginal and acceptable, Table 3's SRMR value of 0.082, which falls between 0.08 and 0.10, indicates.

**3.2 Discussions**

After testing the relationship between indicators and latent variables, testing the relationship between latent variables, and testing the model's fit, a final model that fits simultaneously has been found. As explained above, indicator testing has implications for the issuance of indicators X1.6, X1.7, X1.8, X1.9, X2.1, X2.2, X2.3, X2.5, X2.6, X3.4, X3.5 of the variables Democratic Leadership (X1), Autocratic Leadership (X2), Laissez Faire Leadership (X3), Transformational Leadership (X4), Employee Retention (Y1), Employee performance (Y2). Then, the process of finding the final model that fits simultaneously brings implications for all hypothesized models that can be accepted.

1. The democratic leadership style tends to increase employee ambition and motivation and promote employee identification and retention within the organization. They further argue that because employees are involved in decision-making, delegating, and planning within the organization, they tend to be more realistic about organizational needs (ibid). The model compatibility test results prove a positive influence relationship from the democratic leadership variable (X1) on employee retention (Y1). This influence can be seen through the magnitude of the influence of 0.139. This proves that by implementing a democratic leadership model that emphasizes the open nature of superiors and subordinates.
2. According to Karamat A [8] the autocratic leadership is helpful in emergencies and can work in a crisis or as a last resort with problem employees. However, it has the most negative impact on the overall organizational culture. In this style, decision-making is centralized in the hands of the leader, which does not encourage the participation of subordinates (ibid). The model compatibility test results prove a positive influence relationship from the autocratic leadership variable (X2) to employee retention (Y1). This influence can be seen through the magnitude of the influence of 0.259. This proves that by applying the autocratic leadership model in the organization, employees will feel they have the will to survive because of clear directions at work.
3. Lewin, K [9] explains that the laissez-faire leadership style negatively and positively affects organizations. Alan [1] argues that leadership style can only be beneficial if team members manage their time correctly and have the knowledge, skills, and motivation to do their job effectively. The results of the model compatibility test prove that there is a relationship between the influence of the leadership variable laissez faire (X3) on employee retention (Y1). The magnitude of the influence of the influence can be seen through the magnitude of the

influence of 0.359. This proves that a leadership model that gives freedom to employees in the organization will foster a willingness to survive employees.

4. Empirically demonstrated that transformational leadership can move followers to exceed expected performance and lead to high levels of follower satisfaction and commitment to the group and the organization Nwokocha, I., & Iheriohanma. EBJ [10]. The model compatibility test results prove a relationship between the influence of the transformational leadership variable (X4) and employee retention (Y1). The magnitude of the influence of the influence can be seen through the magnitude of the influence of 0.185. This proves that the existence of a leadership model that gives freedom to employees and dynamically follows the development of the times or needs within the organization will foster the will to survive employees.
5. In the views of Sekaran, U [11] a democratic leadership style tends to foster responsibility, flexibility, and high morale, which will impact improving employee performance. The model compatibility test results prove a relationship of influence from the democratic leadership variable (X1) on employee performance (Y2). The magnitude of the influence of the influence can be seen through the magnitude of the influence of 0.213. This proves that the willingness of employees to stay in the organization (employee retention) will foster a willingness to improve employee performance.
6. By definition, Transformational Leadership is a leader who can stimulate and inspire employees to achieve extraordinary results and, in the process, develop the leadership capacity of each employee Sekaran, U., & Bougie, R [12]. Transformational leadership can have an impact on employees and even on the performance of the organization itself. The model fit test results prove a negative influence relationship from the transformational leadership variable (X4) on employee performance (Y2). The magnitude of the influence of the influence can be seen through the magnitude of the influence of -0.009. This proves that the existence of a transformational leadership model does not provide a consistent effect and has a weak impact on improving employee performance.
7. Swarup, B [13] interprets that employee retention means retaining the employee members who want to be retained and not losing them from the organization, for whatever reason, but especially because of competitors. Therefore, leadership ability in the organization is essential to retain its best employees and, hence, maintain lower turnover. Organizations need to have the right people with the right skills and abilities in place at the right time. An organization can achieve this by adopting various employee retention strategies. The model compatibility test results prove a negative influence relationship from the employee retention variable (Y1) to employee performance (Y2). The magnitude of the influence can be seen through the magnitude of the influence of 1.018.

## AUTHORS' CONTRIBUTIONS

Zervas, C. & David, L [14] explains that performance is a condition that must be known and confirmed by certain parties to determine the level of achievement of an agency's results associated with the vision carried out by an organization or company and to know the positive and negative impacts of an operational policy.

The model compatibility test results prove a negative influence relationship from the employee retention variable (Y1) to employee performance (Y2). The magnitude of the influence of the influence can be seen through the magnitude of the influence of 1.018. This proves that employees are willing to stay in the organization, providing a consistent influence and having a solid impact on improving employee performance. The influence of transformational leadership on employee performance is 87%, explaining that employee retention is a solid supporting factor in increasing employee performance.

## ACKNOWLEDGMENTS

Sincerely and gratefully, the researcher would like to express his gratitude to Universitas Brawijaya for the opportunity and support given in carrying out this research. This research is an attempt to analyze the influence of leadership style in PT. Chakra Jawara Iveco in Jakarta, through the variables of Democratic Leadership (X1), Autocratic Leadership (X2), Laissez Faire Leadership (X3), and Transformational Leadership (X4), on Employee

Retention (Y1) and Employee Performance (Y2). With support and guidance from Universitas Brawijaya, this research was possible.

We also express our sincere thanks to the Dean of the Faculty of Administrative Sciences for his encouragement, direction, and enthusiasm that has provided energy in carrying out this research. The support and inspiration from the Faculty of Administrative Sciences have been a tremendous impetus in overcoming various challenges in the research process. Not to forget, sky-high appreciation was also conveyed to all parties involved in this research, including management and employees at PT. Cakra Jawara Iveco, Jakarta, who have provided invaluable opportunities, support, and cooperation. Their dedication to providing valuable data and information is an essential contribution to the success of this research.

With great hope, the researcher hopes that the results of this study will not only make a theoretical contribution but also have a positive practical impact on PT. Cakra Jawara Iveco and other organizations in developing leadership effectiveness, increasing employee retention, and achieving better performance. In addition, this research will also be a starting point for future studies that will be more in-depth and comprehensive in examining other factors that influence organizational dynamics.

## REFERENCES

- [1] Alan, M. (2023). Leadership Styles. Retrieved from <http://www.ofd.ncsu.edu/wp-content/leadership>
- [2] Bass, BM, & Avolio, BJ E Rupperecht (2022). Developing transformational leadership: 2022 and beyond. Journal of European Industrial Training.
- [3] Browell & C Mabaso (2016). Staff retention in a week. Landon, England: Hodder & Stoughton.
- [4] Business Essentials. (2009). Management. Landon, England: BPP Learning Media
- [5] Ethe, J., Namasonge, GS, & Mike, EMW Simatwa (2021). Influence of Leadership Styles on Academic Staff Retention in Public Universities in Kenya. International Journal of Business and Social Science, 3 (21), 297–302. Retrieved from <http://ijbssnet.com/journals>
- [6] Hair Jr, Joe F, Sarstedt, M., Hopkins, L., & Kuppelwieser, VG (2014). Partial least squares structural equation modeling (PLS-SEM): An emerging tool in business research. European Business Reviews.
- [7] Hair Jr., Joseph F, Sarstedt, M., Ringle, CM, & Gudergan, SP (2017). Advanced issues in partial least squares structural equation modeling. Sage publications.
- [8] Karamat, A. (2020). Impact of Leadership on Organizational Performance Case Company D&R Cambric Communication (Master's thesis, University of Applied Sciences). Retrieved from <https://publications.theseus.fi/bitstream>
- [9] Lewin, K., Lippit, R., & White, R K. R Anggrian (2018). Patterns of aggressive behavior in experimentally created social climates. Journal of Social Psychology, 10, 271–299. Retrieved from [https://tudresden.de/.../Lewin\\_1939\\_original](https://tudresden.de/.../Lewin_1939_original)
- [10] Nwokocho, I., & Iheriohanma. EBJ (2015). Nexus Between Leadership Styles, Employee Retention And Performance in Organizations In Nigeria, European Scientific Journal, 11(13), 1857 - 7881.
- [11] Sekaran, U. (2003). Research Methods For Business: A Skill Building Approach, New York-USA: John Wiley and Sons, Inc.
- [12] Sekaran, U., & Bougie, R., (2009). Research methods for business: A skill building approach. (5thed.). Wiley Publishers.
- [13] Swarup, B. (2013). Leadership Articles. Retrieved from <http://www.hrforums.com>
- [14] Zervas, C. & David, L. (2019). Leadership Style: Is there "one Best," or is flexibility worth developing? Retrieved from <http://www.leadershipadvantage.com/leadership.html>

**Open Access** This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

