

The Effect Organizational Culture as a Mediation of Transformational Leadership to Smes Organization Performance in Malang City - East Java (Study on Small Food and Drink)

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Abstract:

Purpose - The objective of this study to explain the organizational culture as a mediation of transformational leadership on small business enterprice performance. In addition, analyze and explain the direct influence of transformational leadership on small business enterprice performance.

Methodology - There are 270 small business enterprice in Malang - East Java - Indonesia as the study sample. The method used was a survey. The leader of small business entrepreneurs as research respondents. Analysis using multivariate statistical methods SEM (Structural Equation Modeling).

Research Findings - The result of statistical test of the influence of the standardized positive value 0.078 and the significance value (p) of the SMEs in the model of structural equation is not significant, with the value of the coefficient of the standardized positive value 0.078 and the significance value (p) of 0.191 is greater than 0.05. The direct influence of the transformational leadership on a positive organizational culture of 0.304 with a significance value (p) of 0.000 less than the alpha significance level of 0.05. The effect of organizational culture on the SME organization performance is positive 0,546 with a significance value (p) of 0.000 less than alpha significance level of 0.05. The result of testing of coefficient (standardized) equal to 0,078 direct influence of transformational leadership to the organization performance of SME have insignificant influence, while organizational culture is able to mediate transformational leadership role in improving organization performance of SME have coefficient (standardized) equal to $0.304 \times 0.546 = 0.166$, not directly more important than direct influence. The more successful the transformational leadership the better the SMEs organizational performance.

Keyword: *Transformational leadership , organizational culture, SME performance*

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I. Introduction

Human resources is an important requirement in the company especially its role in providing competitive advantage for the company, as well as in the face of technological progress in the future. The growing and growing of an organization coupled with internal and external pressures will require a change in human resource management. In line with that, human resource managers in every organization and company need to be pioneers and leaders in the transformation of corporate culture that puts the workers as members of the company and not just as production resources equivalent to other resources, such as money and machinery. Future human resource managers need to develop the ability to identify the needs of the workforce, both within and outside the organization, and to formulate appropriate strategic actions to ensure the availability of productive and competent human resources.

Talented, qualified, highly motivated human resources and willing to work together in teams will be key to organizational success, therefore, the organization's leaders need to set work goals that will produce high-quality, highly motivated and productive employees. This is in line with the notion of leadership that seeks to persuade and communicate individuals and groups to understand and know what to do in achieving common goals effectively (Yukl, 2005). Meanwhile Hodge et al. , (1996) argues that leadership is a leader's ability to mobilize, encourage, to enable employees to contribute to organizational success. According to Bass and Avolio (1993), transformational leaders have the ability to improve organization performance and influence follower attitudes. Further, Bass (1990) argues that transformational leadership can work when leaders want to open themselves up and pay more attention to the desires of employees, when leaders create awareness and acceptance of group goals and missions and when leaders move the hearts of followers to see further than their own personal interests in the interest of the group. The study differs from the research conducted by Timothy C, O et al., (2011) whose results show that transformational leadership has not been able to raise performance.

Micro and small businesses thrive in Indonesia, as the monetary crisis expanded into a multi-dimensional crisis that hit Indonesia since 1997. This crisis has motivated the growth of small business sector which increasingly absorbs the workforce and strengthens small business development innovations. It can be seen through the development of SMEs throughout 2011 proved able to contribute in the formation of GDP of 57.60%. The details are as follows, 32.02% by Micro Enterprise, 10.99% by Small Business, and 14.59% by Medium Enterprises. The average value of GDP formation by SMEs is Rp 24.8 million per business unit. UMKM is able to recruit 2.32 million new workers, equivalent to 97.8% of new employment created by SMEs and large enterprises in 2011. Absorption of new labor is mostly done by Micro Enterprises, the number is 1.94 million people, including hiring himself. Small Enterprises are able to absorb a new workforce of 292,000 people. (UMKM build the economy, 2013) East Java's economic growth rate is fantastic enough to reach 7.22 percent by the end of 2012 is boosted by the MSME sector (small and medium micro enterprises). Even from East Java GDP that is able to reach Rp1,000 trillion, 54 percent is obtained from 4.2 million UMKM growing and developing in East Java. (UMKM Determines the Success of Governor and Vice Governor of East Java, 2013)

Similarly, the development of SMEs in the city of Malang is growing rapidly which one of the reasons is long since Malang has become a tourist destination for foreign and domestic tourists, which turn the wheels of the economy in the city of Malang. Besides Malang is also famous as a city of education that every year the number of students increases which also gives effect to the growth of the board for the students. The growth of tourism and education sector has an impact on growth in the SME sector, such as: growth in the food and beverage sector, restaurants, handicrafts (handicrafts), internet cafes, and others that support the tourism and education sectors. This is what causes the SME sector to grow rapidly compared to other areas in East Java that SME development is not as fast in Malang.

II. Literature Review

Organizational Performance

Daft (2000) says that organizational organization performance is the organization's ability to use all its power and efforts to achieve its goals efficiently and effectively. Almost the same as Daft (2000), Richardo (2001) formulates the results of efforts made by the organization is an organization's efforts to achieve goals and objectives. Kaplan and Norton (2001) argue that the current focus on the management of non-financial intangible assets is done by many organizations (eg innovative products, high quality, customer relations, and responsive operations) and not focused on managing assets tangible finances (such as fixed assets and inventory). This means that there is a change in the value creation properties that will make the organization performance measurement process more difficult because organization performance measurement systems are not in line with this latest phenomenon.

Organizational culture

The Kotter and Heskett (1997) research entitled "Corporate Culture and Performance" aims to see in the long run whether there is a strong relationship between organizational culture and economic performance, and also to be able to classify the nature and reasons of the relationship and to be more explored in whether and how the relationship in improving the organization performance of an organization. Denison (1990) looks at six additional dimensions of integrated relationships (job design, goal integration, inter-unit coordination, interdependence of work and cooperation). Denison and his colleagues (Denison and Mishra, 1995; Denison et al., (2004) have empirically developed and effectively supported organizational culture theory with 4 (four) cultures positively related to organizational performance, such as consistent (consistency) and normative integration, involvement and participation, mission and adaptability. Similarly, Petty et al. (1995) found that a cultural emphasis on cooperation and working groups relates to the effectiveness of an organization.

Transformational leadership

Bass (1985) argues if a leader is able to make employees understand the values and importance of the work, and is able to make employees believe in organizational goals that will impact the personal interests of the employees themselves. Leaders who can raise the level of higher psychological needs in employees and by motivating the expected commitment of employees to improve organizational organization performance will be higher, (Jiang, 2002). Bass (1985) offers three components that determine transformational leadership behavior: intellectual stimulation, charisma / inspiration, and individual considerations. Bennis&Nanus (1985) argues that management is an agreement on work, security, and money. The end result of leadership is completely different which is the empowerment of employees. What leaders seek is not just higher profits and wages, but organizational culture that can help employees to produce a sense of comfort in work and a desire for a high success. In addition, transformational leaders can motivate employees in ways that understand and care about what employees need, present organizational vision, enforce regulations, and delegate substantially.

Transformational leadership is conceptualized into four dimensions: Charismatic leadership, individual considerations, intellectual stimulation, and presentation vision.

III. Methodology

Research design

This research uses a quantitative approach (quantitative approach), an approach that emphasizes the testing of theories or concepts through the measurement of variables by metric / number and perform data analysis procedures with statistical tools and aims to test the hypothesis. Based on its type, this research is classified as explanatory research.

Population and Sample

The population in this study is 830 SMEs in the Department of Cooperatives and SMEs in Malang City in 2017. The unit of analysis of this study is SMEs, which has a workforce ≥ 5 people residing in Malang - East Java. Sampling in this research with probability sampling technique that is proportionate simple random sampling by using slovin formula. The size of the sample in this study is determined by the Slovin formula of 270 people.

Data analysis technique

The analysis to draw a conclusion is done by using Structural Equation Modeling (SEM) analysis with Maximum Likelihood (ML) based estimation of covariance matrix (Ferdinand, 2002) applied through AMOS (Analysis Moment of Structure) program.

IV. Results and Discussion

Evaluation of normality

Evaluation of normality is done by using criterion of critical skewness ratio and multivariate value equal to ± 2.58 at 1% significance level. The data are inferred to be normal distributed if the critical value of skewness and multivariate value ratio is at absolute point ± 2.58 (Ghozali, 2006). The results of the data normality output assisted with the above AMOS program indicate that almost all indicators show the normal distribution is evident from the critical ratio skewness value at ± 2.58 , except the Y12, Y13, Y14, Y22, Y23, and Y24 indicator. Indicator Y12 obtained by the critical ratio skewness value of -2.681, Y13 indicator of -2.883, Y14 of -2.699, Y22 of -3.887, Y23 of -4.185, and Y24 of -3.408 still below - 2.58. In addition, reviewing the multivariate value of 52,164 shows still not able to meet the assumption of normality, proved that the number is far between the absolute value ± 2.58 . These results indicate that the number of samples determined by researchers exceeds the number of parameters generated in the modeling, that the tested indicator is normally distributed.

Evaluation of multivariate outliers

Outliers are observational conditions of data that have unique characteristics that look very different, far from other observations and appear in the form of extreme values for both single and mixed variables (Hair et al., 2006) in Ghozali (2006) . Detection of multivariate outliers was performed using the Mahalanobis distance value compared with Chi-squares table value (df 48, p = 0.001). If the value of Mahalanobis distance is greater than Chi-squares table (df 48, p = 0.001) then the multivariate outlier occurs. Or mahalanobis distance value smaller than Chi-squares table (df 48, p = 0.001) then free multivariate outlier. The value of the test output on the model of structural equation constructed by the researcher resulted in Chi-squares table value (df = 48, p = 0,001) equal to 84,03713. Mahalanobis distance results assisted AMOS program that shows the lowest distance mahalanobis value of 12,414 and the highest value of 71.676. The test results show that none of the cases have the Mahalanobis distance above 84.03713. The results of this test indicate the observed data there is no multivariate outlier.

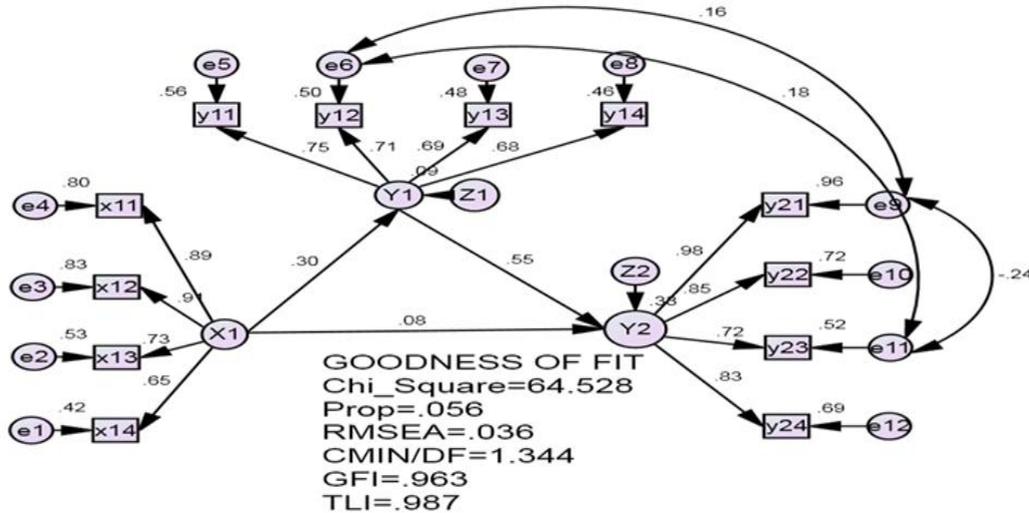
Evaluation of multicollinearity

Multicollinearity problem is a very strong relationship between exogenous and endogenous variables. Multicollinearity can be detected by correlation of each measured variable under study. A high correlation (above 0.9) between measurable variables indicates the presence of multicollinearity (Ghozali, 2006). The output of the correlation matrix from the measured variable indicating none of the correlation values above 0.9. The results of this evaluation indicate that there is no multicollinearity problem.

Evaluation of Structural Equation Model

After the latent variables are tested to form unidimensionality and good reliability, for the next step to test the model of structural equation as a whole assisted by AMOS program to know the causality relationship between research variables.

The result of testing of structural equation model is shown by the value of standard coefficient weight shown below:



While the evaluation of goodness of fit structural equation is shown below:

Evaluation of goodness of fit structural equation

Goodness of fit indices	Results	Cut-off value	Information
χ^2 Chi-Square	64,528	Expected small	Good
Probability (p)	0,056	$\geq 0,05$	Good
CMIN/DF	1,344	$\leq 2,00$	Good
RMSEA	0,036	$\leq 0,08$	Good
GFI	0,963	$\geq 0,90$	Good
TLI	0,987	$\geq 0,90$	Good

The result of evaluation of goodness of fit model of structural equation of this research after the modification of the index indicates that the Chi-Square criterion shows a fit result where the value is not significant with probability $0.056 \geq 0.05$ according to the suggested, it means the hypothetical model is equal to the data empirical or otherwise fit models. Another evaluation result of goodness of fit model of structural equation of research shows that the value of Chi_Square / Degree of Freedom, RMSEA, GFI and TLI has fulfilled the suggested. Barret (2007) states that SEM is a modeling tool, and not a tool for descriptive analysis, therefore the model should be fit with data, while Hooper (2008) states that fit testing with Chi-Square has limitations in the use of 1) the fulfillment of normality assumption multivariate, and 2) sensitive to large sample sizes, Chi Square almost always rejects the model (misfit) when used on large samples. Therefore, to reduce the limitations of Chi-Square Hooper (2008) suggested to the researchers to use alternative fit criteria in testing the fit model, which is relative / normed chi-square (X^2 / df). Based on the test results in table it turns out the X^2 / df value of 1.344 is smaller than cut-off = 2, thus the model can be declared fit.

From the results of the model equation test the structural equation can be seen with the indicator x12 (individual consideration) with the factor lodge of 0.91 and the indicator x11 (charismatic) with loding factor of 0.89 gives greater contribution to the transformational leadership variable than the other indicator , so it can be said that both indicators X12 and x11 are important indicators in shaping the transformational leadership. Similarly, the y11 (adaptation) and y12 (cooperating) indicators with the y11 loding factor of 0.75 and y12 of 0.71 give contribution to the organizational culture variable than the other indicators, so that both y11 and y12 indicator are important indicators in building an organizational culture. Another result, with the indicator y21 (product quality) and y22 (customer relationship) with factor lodges of y21 of 0.98 and y22 of 0.85 contributed to the SME organization performance variable greater than the factor loding of the other indicators, this means product quality and customer relationships are important for SME performance.

The indication modification done in this model shows that e6 and e9 with correlations of 0.16 <1 mean low or weak correlation. Thus with e6 and e11 with a correlation of 0.18 <1 means a low or weak correlation. Modification indices e9 and e11 with correlation -0.24 <1, which means there is a low correlation. Thus it can be concluded that there is almost no correlation between indicators, in other words the indicator of each variable is independent or independent and unrelated / associated with other indicators. The result of evaluation of causality relationship between variables is shown in table below:

Relationship of Variable Causality of Research and Hypothesis Testing

Variable			Koef. Standardized influence:			Prob	Hypothesis
Independent	Mediation	Dependent	Direct	Indirect	Total		
Transformational leadership	-	Organization performance of SMEs	0.078	-	0.078	0.191	H1 rejected
Transformational leadership	Organizational culture	-	0.304	-	0.304	0,000	H2 Be accepted
-	Organizational culture	Organization performance of SMEs	0.546	-	0.546	0,000	H3 Be accepted
Transformational leadership	Organizational culture	Organization performance of SMEs	-	0.304X 0.546= 0,166	-	-	H4- Be accepted

*) Statistically significant at the α level of 5%

The result of statistical test of direct influence of the transformational leadership on the organization performance of SMEs in the model of structural equation shows an insignificant effect, indicated probability value (p) of 0.191 greater than 0.05. While direct influence among other research variables showed a positive and significant influence. The results of the overall SEM testing described above show that organizational culture variables are able to mediate the direct influence of transformational leadership on the organization performance of SMEs. The information obtained shows that organizational culture variables are able to prove and act as key mediation, apparently in the test results which explains that the indirect influence of the transformational leadership on the organization performance of SMEs mediated by organizational culture has a coefficient (standardized) value of 0.166.

The transformational leadership has a significant effect on the organization performance of SMEs.

The one research hypothesis refers Timothy C, O et al., (2011), whose results indicate a transformational leadership has no effect on performance. Based on the result of the model of structural equation as a whole showed that the coefficient of path (standardized regression weight) is positive 0.078 and significance value (p) of 0.191 is greater than 0.05. This shows that the transformational leadership has no significant effect on the organization performance of SMEs. These results can be interpreted that the transformational leadership has not been able to play a role in improving the organization performance of SMEs.

The transformational leadership has a significant effect on organizational culture.

The direct influence of the transformational leadership on a positive organizational culture of 0.304 with a significance value (p) of 0,000 less than the alpha significance level of 0.05. This shows that the transformational leadership has a significant effect on organizational culture. This result can be interpreted that transformational leadership can give change to organizational culture in SME.

Organizational culture has a significant effect on the organization performance of SMEs.

The influence of organizational culture on the organization performance of SMEs is positive 0,546 with a significance value (p) of 0.000 less than the alpha significance level of 0.05. This shows that organizational culture has a significant effect on the organization performance of SMEs. These results can be interpreted that changes that occur in organizational culture will be able to improve the organization performance of SMEs.

The transformational leadership has a significant effect on the organization performance of SMEs through organizational culture.

The result of path analysis proves that the transformational leadership has no significant effect on the organization performance of SMEs, and the transformational leadership significantly influence the organizational culture, while organizational culture has a significant effect on the organization performance of

SMEs. This shows that the transformational leadership will be able to improve the organization performance of SMEs through organizational culture change process. The result of testing of coefficient (standardized) equal to 0,078 direct influence of transformational leadership to SME organization performance has insignificant influence, while organizational culture able to mediate transformational leadership role in improving organization performance of SME have coefficient (standardized) equal to 0,166 from 0304 X 0,546. Thus the role of organizational culture mediation as a variable, able to mediate transformational leadership in improving the organization performance of SMEs. From the description shows that organizational culture is capable as a determinant of transformational leadership success in improving the organization performance of SMEs.

V. Conclusions and Future Research

Overall variables of transformational leadership, organizational culture and organization performance of SMEs have an average above 3.91 which means that the transformational leadership, organizational culture and organization performance of SMEs have been applied well to SMEs in Malang City. Organizational culture variable is able to be a link variable of transformational leadership to SME organization performance variable. Intellectual stimulation from the leadership of SMEs who highly appreciate the advice of employees to be the determinant of the success of organizational culture is an important factor for an employee can adapt when a leader gives direction to subordinates, especially to new things in the effort to change the organizational culture in SMEs in Malang as an effort to improve the organization performance of SMEs in making product and service innovation to their customers.

From the findings of the research descriptions on the transformational leadership shows that the vision of leader achievement conveys clearly the desired goal direction to the subordinate is still low with an average of 3.37, so the researcher suggests for leaders to more clearly convey the desired direction of goals. Other findings on organizational culture show low involvement and participation in employees who have not been actively involved in solving problems with an average of 3.48 and management requested input and consultation with employees on average 3.58, SME leaders to encourage their employees to be actively involved in solving everyday problems. Similarly, innovative bosses encourage work and new things that employees do greatly appreciated by companies with an average that still look low, so researchers advise bosses to be more innovative and try to better appreciate the new things done by employees. From the findings of the description in collaboration shows that employees work well with other employees as a team and employees adapt quickly to new regulations, whose average score is still low, so researchers suggest teamwork and rapid adaptation needs to be improved. Considering the results of the description analysis of customer relationships on the organization performance of SMEs is still needed an understanding of the quality of better customers communicated to employees throughout the organization with an average of 3.89.

From the SEM model picture of this study the indicators x14 (achievement vision) and x13 (intellectual simulation) with loading factor of x14 = 0.65 or 65% and x13 = 0.73 or 73%, so the researcher suggests SME leaders to further improve the vision of achievement and more able to motivate employees to improve their competence.

From the SEM model image of this study the indicators of y13 (involvement and participation) and y14 (innovative) with loading factors of x14 = 0.68 or 68% and x13 = 0.69 or 69%, so the researcher suggests SME leaders to further increase engagement and participation and innovative employees. From the SEM model image of this study the y23 indicators (innovative products and services) averaged 0.72 or 72% and y24 (responsive process of operation) with factor lodges of x14 = 0.83 or 83%, so the researcher suggested SME leaders to further improve innovative products and services and responsive operating processes. Taking into account the findings of this study indicating that transformational leadership s that have not yet had a direct impact on SME performance, future research will need to consider other antecedent variables to be examined. Considering the findings of this study indicating that transformational leadership that has not yet had a direct impact on the performance of SME organizations, the next researcher needs to consider other antecedent variables, such as leader competence, information technology leader competence, employee competence, transactional leadership, leader motivation, employee motivation.

VI. Limitations of Research

Limitations that can be conveyed related to this research are certain SMEs to the population in this study and have not fully incorporated other types of SMEs such as in the list of names SMEs Cooperatives and SMEs in Malang, this is due to the limitations of researchers to enter other types of SMEs as a population in this study, so that the results of this study can only be generalized in the population of the type of food and beverage SMEs studied.

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