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## BEHAVIOR OF TRANSFORMATIONAL LEADER, ORGANIZATION CULTURE, AND SUBORDINATE'S WORKING BEHAVIOR TOWARD WORKING PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: RECONCEPTUALIZATION AND MODELING

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**ABSTRACT.** The low working performance of small and medium enterprises can not be separated from behavior of transformational leader and organization culture which can form subordinate's working behavior. These factors are very important to be concerned, especially for an entrepreneur who lives with full of uncertainty and continually speculation. Based on the mentioned things, the research is conducted with a purpose to form measurement model of organization's working performance through behavior of transformational leader and organization culture in forming behavior of subordinate's duty on knitting industry in the Binong Jati knitting center, Bandung. The method used is *descriptive survey* and *explanatory survey*, with 120 researched samples from 412 knitting entrepreneurs with simple randomized sample method. The analysis method was structural equation model (SEM) analysis method using LISREL software. The important finding of this research result shows that behavior of transformational leader is classified in fair category, while their organization culture is classified in low category. Furthermore, behavior of subordinate's duty is classified in fair category, while organization working performance is still classified in low category. The analysis result proves that transformational leader and organization culture can form behavior of subordinate's duty which finally can form organization working performance.

**Keywords:** Behavior of Transformational Leader, Organization Culture, Working Behavior of Subordinate, Company's Working Performance

### 1.1 BACKGROUND OF RESEARCH

The role of small and medium enterprises in Indonesia is admitted very important in the national economy, especially in the improvement of employment opportunities, equal distribution of income, rural economic development, and the increasing of non oil export. It should be admitted that the emerging and development of an economic business is not only caused by the existence of a policy or government's supervisory program. The main determinant of the emerging and development of an economic business is related to economics, social, cultural and historical factors which afterward bring influences to the business working performance.

The economic and social factors can be classified in two sides: demand and supply side. Factors in the demand side is average of income and taste of community's consumption,

structure, space, and served market characteristic. While, factors in supply side are labor supply both of quality and quantity, *managerial skill*, information, technology, quantity and quality of raw material, ethos, and working disciplines, and other aspects related to *entrepreneurship*. The government's policy only makes the influence of each factor become bigger or smaller. The difference of consumption taste and pattern in the community for the similar goods is also determine the size of industrial market.

The decreasing or increasing of small and medium enterprises globally in Indonesia, and Bandung region especially, indicates the lack of government's alignments in addressing economy that is based on small medium enterprises industrial. This is caused deep apprehensive. The more higher competition level is between small medium enterprises, the more it's create positive challenge for small medium enterprises to improve their quality.

The organization continuance depends on owned resources and chosen strategy in empowering its internal resources to respond threaten and external opportunities (Barney in Campbell, 1997:26). The ability to gain opportunity and winning competition need to be supported by organization culture that able to direct organization strategy, mission, and vision. Moreover, organization culture is convinced become one of the factors that forms and directs behavior of organization management. According to Kotler dan Heskett (2008), the most of organization culture researcher agrees about the existence of an organization culture impact to its long-term working performance. The organization culture is one of manager behavior determinant in organization, besides of structure, planning system, and other formal policies: leadership, and competitive environment. Therefore, organization culture has an impact toward organization effectivity and efficiency that become real result because of the existence of certain working behavior that is showed by organization members. Conceptually, organization culture has been related with the leadership and subordinate behavior. In the other side, organization culture....

Small and medium enterprises as an organization needs innovation of organizational management. This far, small medium enterprises is considered as the most flexible organization in operational running. This means small medium enterprises has a high organization innovation. Small medium enterprises that has high innovation management will be able to compete by raising of new things that is not owned by other enterprises. With this ability, the enterprises can gain bigger selling portion and finally influencing the working performance of the enterprises. According to Neely et.al (2001:114) that "organization that conducts continue organization innovation will survive in the competition"

## **II. Relationship Modeling of behavior of transformational leader, organization culture, working behavior of subordinate, and company's working performance**

### ***Transformational Leadership***

Theory of transformational leadership, for the first time was said by Bernard M. Bass, that is built above earlier ideas that was said by Burns (Yulk, 1994; Pinar and Eastman, 1997). Burns (in Pinar dan Eastman, 1997), defines transformational leadership as a process to reach collective goal, united mutually beneficial motives that is owned by the leader and his/her subordinate in order to reach desired changes. While Greenberg and Baron (2000), defines transformational leadership as a leadership behavior by which a leader using his/her charisma to transform and revitalize organization. According to Yulk (1994), the original formation of transformational leadership theory which was said by Bernard M. Bass

is covering three main components: charisma, intellectual stimulation, and attention that is individual oriented. Charisma is defined as a process in which a leader influences their followers by raising strong emotion and identification to him/her. Intellectual stimulation is a process where main role of a leader is to improve the awareness of their followers to the problems around them and influence the followers to views those problems from a new point of view. Individual oriented attention including give the support to encourage and share the experiences about self development to their followers.

So, transformational leadership theory is characterized with a condition where the leaders motivate their followers by:

1. Make them realize about the importance of a working result;
2. Promoting them to put the importance of group or organization (team) above the personal importance;
3. Activating their need at the higher level.

### **Organization Culture**

Organization culture has been conceptualized into several construct on the organizational researchs. One of them is Schein model (Budiharjo,2003) that is defined culture as : *a pattern of basic assumptions – invented, discovered, or developed by a given group as its learns to cope with its problems of external aaptions and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to be members as the correct way to perceive, think, and feel in relation to those problems.* Schein (Hatch , 1993) is assumed that culture exists simultaneously in three level : In the surface is artifacts, below the artifacts is values, and inside is basic assumptions. Artifacts, is the outermost element of organization culture that has concrete and visible characterization. The part of artifacts are : material object, building design, language technology, myth story, ritual, heroes, and symbol. Values is a basic element of organization that directs to behavior, that is related to morale, ethics because its has role to determine what should be done by organization members. This element is also related to the faith that is adopted together by organization member. Basic assumptions is the deepest part that is underlie value, attitude, and faith of the organization members that have 5 main dimension : relations between human and nature, characteristic of the truth, natural characteristic of human being, natural characteristic of human's activities, natural characteristic of relations between human being. If an organization has basic assumption that trust as a foundation of relation between human beings, so value consequence that is adopted by organization members is honest norm, and desired norms are honest, transparency, and trust norm (Budiharjo, 2003).

This model is further developed by Hatch (1993), become The Dinamys Model of organization culture. Two basic changes that is conducted by Hatch (1993) are: first, by adding new element, and second the fourt of those elements makes become centralized so the relations between several organization culture elements become focal. Afterward, Hofstede (2004) defines organization culture as: *the collective programming of the mind which distinguishes of members of one organization from another.* Culture in Hofstede's view almost similar with two previous mentioned models that is consisted of four main elements: *symbols, heroes, ritual, and values.*

Organization culture is formed through long process, where the role of leader very strong in the process. The norms and basic assumptions that is owned by the leader have a big role in an organization forming. The norms, values, and basic assumptions that is owned by a leader will influence leadership behavior and leadership style that is implemented by him/her.

Behavior that is showed by the leader will directly form organization strategic policies. The policy is one of the elements that directs to where an organization will be aimed.

### ***Working satisfaction***

In working, social, and family life, someone will be involved with emotional feeling, both of negative and positive. Positive emotional side that is felt by subordinate has been conceptualized into several construct by the researcher. The most get attention construct is working satisfaction. Working satisfaction is one of the subordinate's behavior fom that is defined as something pleasure or positive emotional vision of working assessment or someone's working experience (Locke, dalam Vandenberg dan Lance, [1992]). Someone's working satisfaction is determined by differentiation between all things that are wished with all things that are felt from a job or all thngs that is actually accepted.

According to Witt dan Nyee (1992), the most part of research based on two basic assumption. First, working assumption is an potential determinant to predict presence level, rotation, working performance, and extra role behavior. Second, that the main antecedents of subordinate's working attitude can be influenced by ability that is owned by company's management. The empirical proves presents the conclusion that personal working satisfaction influences organizational commitment in a positive way. (Clugston, 2000; Levy and William, 1998; Lum et al., 1998; Russ and McNelly, 1995; Vanderberg andLance, 1992), absence (golberg dan Waldman, 2000), living satisfaction (Judge dan Watanabe, 1993), motivation, (Igalens dan Roussel, 1998), and rotation desire (Clugston, 2000; Golberg and Waldman, 2000; Russ and McNelly, 1995).

Personal working satisfaction is determined by differentiation between all things that are wished with all things that are felt from a job or all thngs that is actually accepted. Working satisfaction is found become intervening variable in relations between environment and personal characteristic with organizational commitment (Lum et al.,1998), and is believed as one of the main determinant of subordinate's rotation in organization (Good et al., 1996).

Personal working satisfaction tends to influence her/his commitment level toward organization where he/she works. But, there are difference of conclusion that resulted by the researchers about the influence of working satisfaction toward organizational components that is presented by Allen and Meyer (1990). Clugston (2000) concludes that working satisfaction influences effective, continue, and normative commitment in a positive way. But Hackett et al. (1994) found that working satisfaction influences continue commitment in a normative way and its related to effective and normative commitment in a positive way.

### ***Working Motivation***

Working motivation is defined as a process in which personal working performance is energized, directed, and survived in a work and organization living (Steer and Proter, in leonard et al. [2003]). The empirical researchs about this, more focus on working motivation resources (Leonard et al. 20093. Personal working performance can be sourced from individual itself (internal motivation) and can be sourced from outside factors (external motivation). The role of culture to maintain and form sub ordinate' s working motivation is very strong. The strong culture, generally, able to raise enthusiasm and motivation of the members to gain the organization's goal through duty and job accomplishment in a better way.

### **Organizational commitment**

According to Meyer et al. (1993), organizational commitment is defined as how far the involvement of someone in an organization and the strength to identify something of an organization. The researches which use organizational commitment as one of the variable can be grouped in two perspectives: the first is unidimensional research and second is the researches which make the organizational commitment to construct the multidimensional one.

Commitment as construct the dimensional one, divide organizational commitment into three commitment forms, which are: affective organizational commitment (AOC), Continuance organizational commitment (COC), and normative Organizational commitment (NOC) (Meyer et al., 1998). Affective component refer to how far someone has emotional bond, identify him/herself, and feel involve inside an organization. Continuance refer to commitment which is based on the cost arising as he/she leaves the organization. Normative refer to the moral obligation which is felt by the subordinates to stay inside the organization (Dunham et al., 1994). Furthermore, Shore et al., (1995) explain that an subordinate who has high affective commitment will stay inside the organization because they want to, in the other hand, subordinate with high continuance commitment will stay inside the organization because they need it, and the subordinate who has high normative commitment will stay inside the organization because they feel morally and based on their trust that they have to stay.

Work satisfaction which is felt by someone tends to influence the level of the commitment to the organization where he/she have worked for. But, there are still different conclusions which are made by the researchers about the work satisfaction influence to the organizational commitment components which are presented by Allen and Meyer (1990). Clugston (200) found that work satisfaction influence the affective commitment, continuance and normative in positive way. But, Hackett et al (1994) found that subordinate work satisfaction influence the continuance commitment negatively and influence the affective and normative positively.

### **Organizational Citizenship Behavior**

Subordinate behavior in the workplace can be grouped into two kind: behavior related to official workings (in-role-behavior) and behavior outside the official working (extra-role behavior). Extra-role behavior is very important to the effectivity of organization, which affect performance in long-term, directly affect the continuity of the organization, especially in the business environment which are volatile these days. Organ define OCB as individual behavior which is free (discretionary), indirectly, and explicitly get a reward from the formal reward system, and overall encourage the effectivity of the organizational functions. It is free and voluntary, because that behavior is required by the role requirement or position description, which clearly required based on contract with the organization, not as a choice (Podsakoff, et al (2000))

### **Company Performance**

In the development perspective, UKM can be classified into 4 (four) groups:

1. *Livelihood Activities*, is UKM which is used as working chance to get a living, commonly known as informal sector. For example: cadger.
2. *Micro Enterprise*, is UKM which has craftsmen identity but doesn't have entrepreneurship identity.

3. *Small Dynamic Enterprise*, is UKM which has entrepreneurship soul and can accept sub-contract job and export.
4. *Fast Moving Enterprise*, is UKM which has entrepreneurship soul and will transform into Bih Bussiness. Or Usaha Besar (UB)

The definition of operational aspect performance as described by Karst and Rosenzweig (2002, 507), covers all the organization purposes. For low level managers, performance is a target which helps all of the mission's accomplishment. For every organization unit, the management working is to achieve the performance which is measured by the relevant criterias. For the company, economy performance is measured with sales value, marketshare, profit, return of investment and active growth. Besides that, the targets like product quality or customer satisfaction is one of the manager focuses. The working of a manger covers the company social responsibility for issues like consumer protection, education, health, and positive actions in environment preservation. They also show that manager performance and every unit is determined by the status in the organization, working coverage and authority.

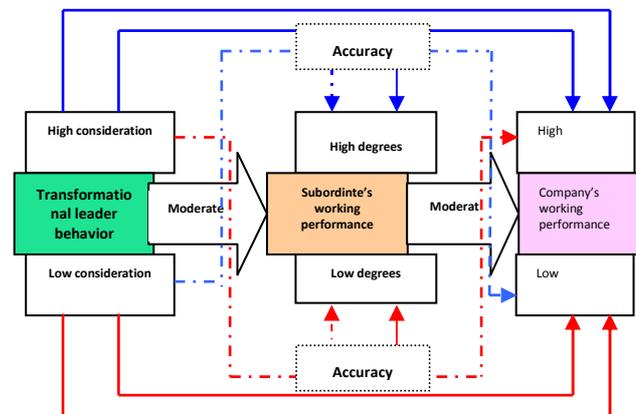
The compatibility between *effort* and direct boss view about *rule perception*, by matematic model of working performance according to Lawler & Porter is:

$$P = E \times A \times R$$

with: P = Performance, E = Effort, A = Ability, R = Rule Perception.

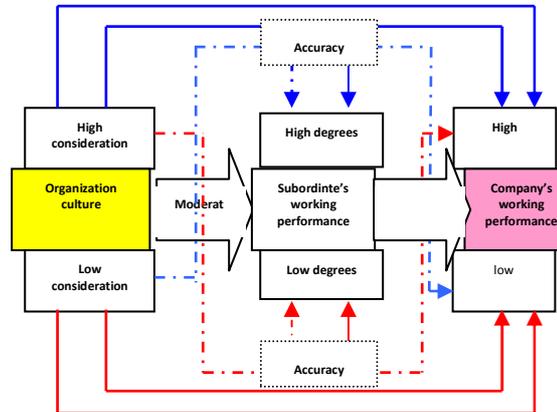
The above understanding indicates about the importance of working performance measurement for organization as a key factor to ensure that organization implementation and strategy is working. The description above is meanted that unproper working performance measurements is an obstacle for organization development because working performace measurements has an important role to improve quality and productivity in organization, provide visibility in monitoring working performace level of each subordinate. Small Medium Enterprises that has high innovation performance will always create suitable product or service with the change of need and costumer's interest. This thing will bring an impact to the increasing of consumer's demand, finally will improve company's market share. As presented by Yamin (in Ross et.al , 2007:879) in a research at a manufacture company in Australia that obtain result there are a relations between innovation of duty behavior with the company's working performace

Based on the description of relation between above variable, can be drawn model expectation on the below diagram.



**Diagram 2.1. Model Expectation of Transformational Behavior Leader toward Subordinate's Working Behavior and Company's Working Performance**

Afterward the writer also expecting organization culture effect, Subordinate's Working Behavior and Company's Working Performance can be seen on Diagram 2.2.



**Digram 2.2 Model Expectation of Organization Culture toward Subordinate's Working Behavior and Company's Working Performance**

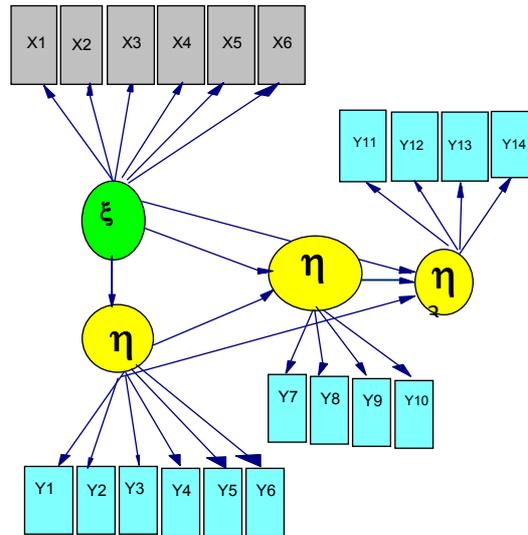
Based on the description of the above literature, can be describe research hypothesis as follows :

- (1) The behavior of transformational leader behavior toward organization culture
- (2) The behavior of transformational leader behavior and organization culture influences sub ordinate's working behavior
- (3) The behavior of transformational leader behavior and organization culture influences company's working performance
- (4) sub ordinate's working behavior influences company's working performance
- (5) The behavior of transformational leader behavior and organization culture influences sub ordinate's working behavior

### III. RESEARCH METHOD

The types of this research is an descriptive survey and *explanation research*. Sample in the research are 120 entrepreneurs from 412 entrepreneurs/knitting industry in Bandung City, generally centralized in Binong Jati, Batununggal Regency, while others are spreaded around of Bandung City as analisis unit based on sampling iterative.

Beside quantitatively analized, data of this research also analized by using *Structural Equation Mode-SEM*). SEM is an technique that analized indicator variable, fix variable, and measurement error (Joreskog & Sorbom, 1996). SEM is used to analyze relations between one fix variable with others that is known as (*structural equation*) that together involves measurement error. Besides of that, this equation structure model can be used to analyze (*reciprocal relationship*). Data processing in this research is using LISREL program (Linier Structural Relationship) that is an statistical program package for *Structural Equation Model* (SEM). Afterward on the diagram 3.1 is a model of relation structur between variable.



**Picture 3.1 Relationship structure of Transformational Leader Behavior, Organizational culture, Subordinate Working Behavior, and Company Performance**

Legend:

- ξ = Transformational Leader Behavior
- η1 = Organizational Culture
- η2 = Subordinate Working Behavior
- η3 = Company Performance

#### IV. FINDING

##### Descriptive Analysis Result

- 1) Transformational Leader Behavior which include Inspirational Motivation, Intellectual Stimulation, Individual Attention, Ideal Influence, Foster the group goal acceptance, and charisma of the knitting entrepreneur in Bandung in categorized as FAIR.
- 2) Organizational Culture which include Process vs Result, Subordinate vs Job, Parochial vs Professional, Open vs Closed, Loose vs Tight, and Normative vs Pragmatic is still LOW.
- 3) Subordinate Working Behavior which includes: Work Satisfaction, Motivation, Organizational Commitment, and OCB is categorized as FAIR.
- 4) Company performance which includes: Profitability Performance, Liquidity, Solvability, and Activity in average is FAIR, but for Solvability and Activity performance is LOW.

##### Hypothesis Test Result

- 1) Analysis result proves that (a) Transformational Leader Behavior (ξ) affect positively to the organizational Culture (η1), with influence of 0.4388; (b) Transformational Leader Behavior (ξ) and Organizational Culture affect positively to the Subordinate Working Behavior. From both variables, the biggest one which affect Subordinate Working Behavior is Transformational Leader Behavior, which is 0.414, and Culture which is

0.3152.;(c) Transformational Leader Behavior ( $\xi$ ), Organizational Culture ( $\eta_1$ ), and Subordinate Working Behavior have significant positive influence to Company Performance. From the three variables, the biggest one which affect Company Performance is Subordinate Working Behavior which is 0.4157. Total influence of the three variables is 58.37%. The rest 41.63% is influenced by other variables outside these three observed variables. This can be interpreted that the company performance for Knitting industry in Bandung can be achieved with the consideration to accommodate transformational leader behavior, organizational culture, and subordinate working behavior so work innovation can be created and directly affect the company performance.

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